Expeditors International of Washingtion Inc. (EXPD)

Updated February 22nd, 2020 by Felix Martinez

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$13.1B
Fair Value Price:	$64	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	5/29/20[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	6/15/20[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	25
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	11.1%

Overview & Current Events

Expeditors is a global logistics company headquartered in Seattle, Washington. The company was founded in 1979 as a single office ocean forwarder in Seattle. The company was publicly traded by 1984. Expeditors' services include the consolidation or forwarding of air and ocean freight, customs brokerage, vendor consolidation, cargo insurance, time-definite transportation services, order management, warehousing and distribution, and customized logistics solutions. Currently, the company has over 250 locations and ~18,000 employees worldwide. In 2019, the company reported $8,175 million in revenue. Expeditors has a market capitalization of $13.1 Billion, and the company has been growing its dividend for 25 consecutive years. The company is now part of the exclusive Dividend Aristocrats.

On February 18, 2020, the company reported fourth-quarter earnings as well as Fiscal Year (FY)2019 earnings. The total revenue for FY2019 was flat compared to FY2018. However, for the fourth quarter, it was down (9)% year over year. Net earnings were down (4.48)% for the whole year. Operating income in Q4 2019 was negatively impacted by lower volumes and lower average sell rates. The most significant decline in volumes was experienced in the China operations, where revenues and operating income declined by 27% and 23%, respectively. Management mentioned that there remains a great deal of uncertainty because of the impact of the Coronavirus (COVID-19) in China. Management does not know as to when the factories will return to full productions. This event will have a significant impact on the freight volumes in 1Q2020.

Earnings-per-share (EPS) was $0.81 for the quarter, which is a decrease of (22.12)% vs. $1.04 for 4Q18. Also, EPS for FY2019 drop by (2.82)% from $3.55 in FY2018 to $3.45 in FY2019. Consensus estimates that the company will earn $3.57 for the full year 2020. Thus, we will use this as our valuation calculation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.59	$1.79	$1.57	$1.68	$1.92	$2.40	$2.36	$2.69	$3.48	$3.39	***$3.57***	***$4.56***
DPS	$0.40	$0.50	$0.56	$0.60	$0.64	$0.72	$0.80	$0.84	$0.90	$1.00	***$1.08***	***$1.51***
Shares[3]	216.0	215.0	212.0	207.0	197.0	190.0	182.0	182.0	178.0	174.0	***174.0***	***174.0***

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 8.8%. It has slowed down to an 8.3% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down as well to about 5% for the foreseeable future.

Net margin has compressed slightly from 7.6% in FY2018 to 7.3% in FY2019. The company also increased its cash and cash equivalents for the full year from $924 million to $1.23 billion, or an increase of 33.2%. Expeditors has grown its dividend for 25 consecutive years with a 10-year dividend growth rate of 10.2% and a five-year growth rate of 9.3%. We estimate future dividend growth of 7% because of the earnings slow down. The company pays out dividend semi-annually.

[1] Ex-dividend date is an estimate.

[2] Dividend payment date is an estimate.

[3] Shares count in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	26.3	26.6	25.2	24.3	22.1	19.7	20.9	23	20	23	***21.1***	***18.0***
Avg. Yld.	1.0%	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	***1.3%***	***1.8%***

Shares of the company have always demanded a high P/E multiple, averaging 23.1 for the past ten years. However, we will be using a PE of 18.0 for our fair value estimate due to slower growth expected moving forward. With that said, the company has a current PE if 21.1 based on our FY 2020 EPS estimate of $3.57. This is slightly in line with EXPD 5-year average PE of 21.3. The current dividend yield of 1.3% is marginally lower than the past 10-year dividend yield average of 1.4%. While the dividend yield is not spectacular, it is very well covered with a payout ratio of 30% and the tendency to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	25.2%	27.9%	35.7%	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	***30%***	***33%***

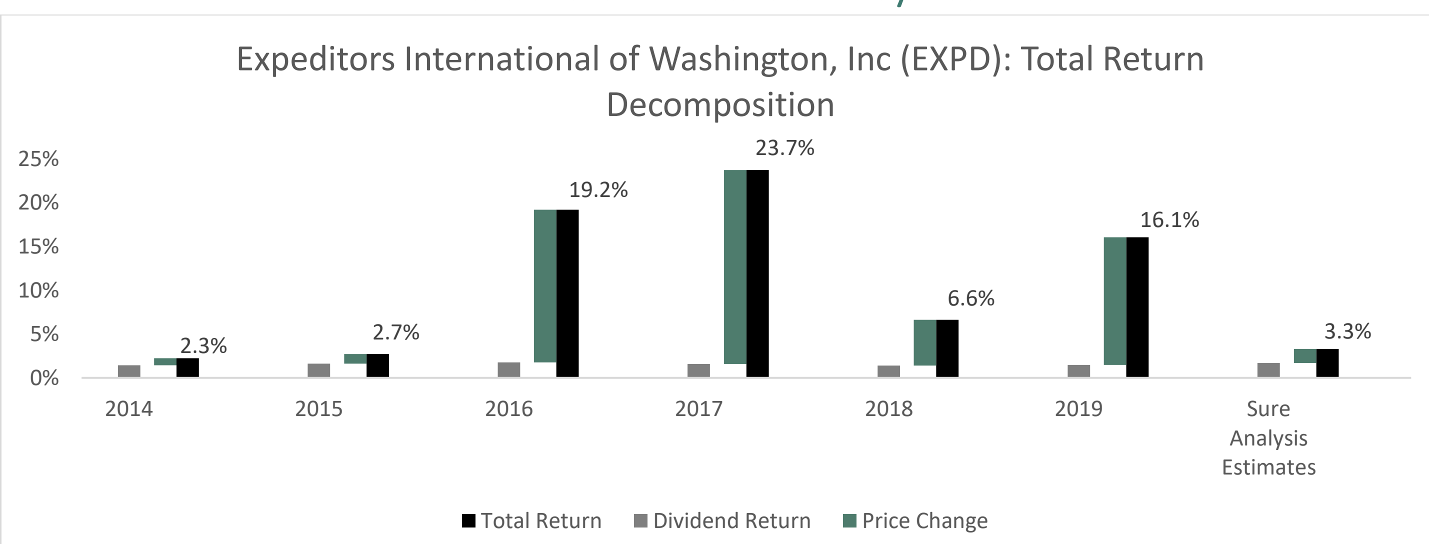
During the Great Recession, the company saw a decrease in earnings of 19% from $1.37 in 2008 to $1.11 in 2009. However, EPS bounced right back up to $1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and in 2019, but Expeditors made adjustments and continued to grow. Thus, we expect higher earning's for FY2020. EXPD has a strong balance sheet with a debt to equity ratio of only 0.53, which is lower than the 0.67 debt to equity ratio that the company reported for FY2018. The dividend is very safe; the dividend payout ratio has not passed 36% for the past ten years.

Expeditor's competitive advantage is the global footprint and an extensive network of shippers and carriers which produce a robust value that would be challenging to replicate for new entrants.

Final Thoughts & Recommendation

Expeditors has a long history of growing earnings and dividends. The company is expected to continue to grow its earnings for the foreseeable future, as well as its dividend. However, the high valuation means we expect weak total returns of 3.3% ahead. Thus, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$5,968	$6,162	$5,992	$6,080	$6,565	$6,617	$6,098	$6,921	$8,138	$8,175
Gross Profit	$685	$783	$702	$704	$764	$896	$851	$883	$1,020	$997
Gross Margin	11.5%	12.7%	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%
SG&A Exp.	$32	$39	$34	$33	$38	$42	$42	$44	$45	$44
D&A Exp.	$37	$37	$40	$48	$49	$46	$47	$49	$54	$51
Operating Profit	$547	$618	$531	$552	$595	$721	$670	$700	$797	$767
Operating Margin	9.2%	10.0%	8.9%	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%
Net Profit	$344	$386	$333	$349	$377	$457	$431	$489	$618	$590
Net Margin	5.8%	6.3%	5.6%	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%
Free Cash Flow	$353	$379	$323	$354	$330	$522	$470	$394	$525	$725
Income Tax	$220	$252	$217	$223	$231	$277	$254	$228	$199	$204

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	$2,679	$2,867	$2,954	$3,015	$2,891	$2,566	$2,791	$3,117	$3,315	$3,692
Cash & Equivalents	$1,084	$1,294	$1,261	$1,248	$927	$808	$974	$1,051	$924	$1,230
Accounts Receivable	$1,004	$935	$1,031	$1,074	$1,236	$1,112	$1,190	$1,415	$1,582	$1,315
Goodwill & Int. Ass.	$12	$8	$8	$8	$8	$8	$8	$8	$8	$8
Total Liabilities	$931	$857	$922	$928	$1,019	$871	$944	$1,123	$1,327	$1,495
Accounts Payable	$652	$607	$642	$648	$770	$645	$727	$866	$902	$736
Long-Term Debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Shareholder's Equity	$1,741	$2,004	$2,028	$2,085	$1,868	$1,692	$1,845	$1,992	$1,987	$2,195

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.8%	13.9%	11.5%	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%
Return on Equity	20.9%	20.6%	16.5%	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%
ROIC	20.8%	20.5%	16.5%	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%
Shares Out.	216.4	215.0	211.9	206.9	196.8	190.2	182.7	181.7	177.8	174.0
Revenue/Share	$27.57	$28.65	$28.27	$29.39	$33.36	$34.78	$33.38	$38.10	$45.76	$46.93
FCF/Share	$1.63	$1.76	$1.52	$1.71	$1.68	$2.75	$2.57	$2.17	$2.95	$4.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Shares outstanding is in millions.