



Ryder System, Inc. (R)

Updated February 18th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	10.9%	Market Cap:	\$2.0 B
Fair Value Price:	\$13	5 Year Growth Estimate:	32.5%	Ex-Dividend Date:	02/17/20
% Fair Value:	298%	5 Year Valuation Multiple Estimate:	-19.6%	Dividend Payment Date:	03/20/20
Dividend Yield:	5.8%	5 Year Price Target	\$53	Years Of Dividend Growth:	15
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	3.7%

Overview & Current Events

In 1933, Jim Ryder made a \$35 down payment on one truck. Today that has transformed into a \$2.0 billion commercial transportation, logistics and supply chain management solutions company with 240,000+ vehicles, 50 million square feet of warehouse space, and 36,000 employees. The business is divided into three segments – Fleet Management (FMS), Dedicated Transportation (DTS) and Supply Chain Solutions (SCS) - providing commercial truck rental, truck leasing, used trucks for sale, and last mile delivery services. Ryder generates over \$8 billion in annual revenue.

On February 13th, 2020 Ryder released Q4 and full year results for the period ending December 31st, 2019. For the quarter, Ryder recorded revenue of \$2.3 billion, which was up 0.7%, led by a 2.9% increase in operating revenue. Reported earnings-per-share equaled -\$1.02 versus \$2.12 in Q4 2018, while adjusted earnings-per-share totaled -\$0.01 compared to \$1.87 previously. The dramatic reduction in earnings was a result of an ongoing change in the residual value estimates of all power vehicles. Previously, Ryder stated that they began to see market softness in Q2 2018 and expect to utilize wholesale channels to a greater extent; lowering their estimate of the prices they could receive upon the sale of their vehicles. This is expected to continue through 2021, but the impact should lessen over time.

For the year Ryder generated sales of \$8.9 billion, up 6.1%, led by a 7.9% increase in operating revenue. Reported earnings-per-share equaled -\$0.45 compared to \$5.43 in 2018, while adjusted earnings-per-share totaled \$1.01.

Ryder also provided a 2020 forecast. For this year total revenue is expected to be up 0.8% to \$9.0 billion. However, reported earnings are anticipated to come in between \$0.22 and \$0.62, while adjusted earnings-per-share are expected to be in the \$1.10 to \$1.50 range. The residual value change will continue to weigh on results.

Ryder declared a \$0.56 quarterly dividend, marking the 174th consecutive payment and 43+ years of payouts.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.23	\$3.49	\$4.04	\$4.87	\$5.59	\$6.13	\$5.41	\$4.53	\$5.79	\$1.01	\$1.30	\$5.31
DPS	\$1.04	\$1.12	\$1.20	\$1.30	\$1.42	\$1.56	\$1.70	\$1.80	\$2.12	\$2.20	\$2.24	\$2.44
Shares¹	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0	53.1	52.3	52	52

If you look back to 2008, when the company was earning \$4.49 per share, Ryder has grown earnings-per-share by an average compound rate of roughly 2.6% per annum through 2018. However, results dropped off significantly in 2019 as the company is dealing with a significant impact from residual value changes. This should abate over time but will show depressed results in the interim. We are forecasting 2% annual growth from 2017 to 2025, which presents an artificially high growth rate from this year's low base. However, this will be offset by an artificial reduction in the earnings multiple.

Ryder faces challenges from increasing costs, more stringent regulation, and disruptive technologies; not to mention softer demand in the power vehicle resale market. However, there are also opportunities as the company offers solutions for driver and labor shortages in the industry for the short to intermediate-term, and Ryder can play a key role in the ongoing shift toward e-commerce and asset sharing / autonomous vehicles in the long-term.

¹ 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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The company paid the same \$0.15 quarterly dividend from 1989 through 2004 but began increasing it in 2005. From 2008 to 2019, this payment increased by 8.2% per annum. Moving forward we anticipate the dividend growth rate to slow, but still add meaningfully to shareholder returns.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.8	14.3	11.4	12.5	15.1	13.7	12.1	16.6	12.2	---	29.8	10.0
Avg. Yld.	2.5%	2.2%	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	5.8%	4.6%

Excluding 2019, shares of Ryder System have traded hands with an average P/E ratio of about 14 times earnings, with a range from 8 to 19 times earnings. We are using 10 times earnings as a fair multiple over the long-term. Keep in mind this year's earnings are significantly depressed, resulting in a significant valuation headwind that is offset by the artificially high growth rate. Collectively, we believe earnings growth and the valuation could provide mid-single-digit gains over the intermediate-term. In addition, the near 6% dividend yield could add materially to the investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	32%	30%	27%	25%	25%	31%	40%	37%	218%	172%	46%

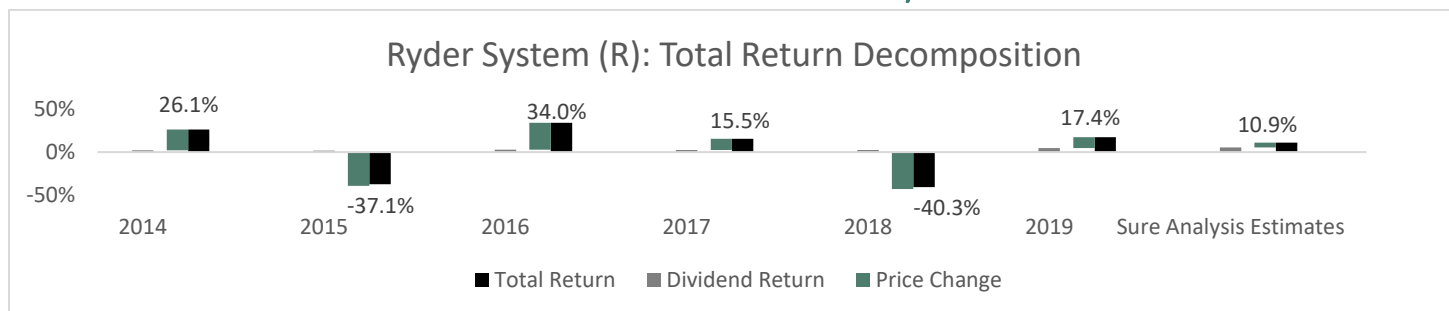
There have been three instances – 2008-09, 2015-17 and 2018-19 – where the company reported a material decline in per share earnings (-65%, -26% and -83% respectively). While this comes with a cyclical industry, we are encouraged by Ryder's ability to rebound. This last reduction in particular is a result in the change of how depreciation is calculated, rather than a fundamental change in the underlying operating business. The payout ratio appears elevated today but should get back to a more typical level once the company works through the depreciation charges.

Of particular note to Ryder's safety is the company's interest expense, which totaled \$241 million last year against underlying earnings power near \$300 million. The company has suggested that it is comfortable with this type of significant leverage – targeting a debt-to-equity ratio of 200% to 250%. However, this could mean that the company would have to take dilutive action if business conditions deteriorate.

Final Thoughts & Recommendation

Shares are down -28% since our last report. The growth rate and valuation multiple estimates presented above are artificially high and low respectively, as a result of depressed earnings in the short-term. Collectively, we anticipate earnings to "snap back" to a more typical level and for these two components to provide mid-single-digit returns over the intermediate-term. When combined with the 5.8% current dividend yield, this results in an expected return of 10.9% per annum. However, we are cautious in this regard, as earnings may not come back as anticipated and the company's leverage is significant. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5136	6051	6257	6419	6639	6572	6758	7297	8409	8926
Gross Profit	1070	1245	1249	1320	1386	1485	1501	1464	1582	1371
Gross Margin	20.8%	20.6%	20.0%	20.6%	20.9%	22.6%	22.2%	20.1%	18.8%	
SG&A Exp.	655	771	764	791	914	823	804	871	855	907
D&A Exp.	875	912	989	1040	1094	1175	1226	1264	1426	
Operating Profit	280	344	351	397	356	546	584	477	601	341
Operating Margin	5.5%	5.7%	5.6%	6.2%	5.4%	8.3%	8.6%	6.5%	7.2%	
Net Profit	118	170	210	238	218	305	263	792	273	-24
Net Margin	2.3%	2.8%	3.4%	3.7%	3.3%	4.6%	3.9%	10.9%	3.2%	
Free Cash Flow	-51	-657	-999	-871	-876	-1226	-304	-312	-1415	
Income Tax	62	108	102	126	118	163	142	-478	98	-19

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6652	7618	8319	9104	9851	10953	10902	11464	13051	14475
Cash & Equivalents	213	105	66	62	50	61	59	78	68	74
Accounts Receivable	535	730	747	760	779	799	816	981	1171	
Inventories	59	66	64	64	66	64	70	74	79	
Goodwill & Int. Ass.	428	462	465	456	460	444	435	438	534	
Total Liabilities	5248	6300	6851	7207	8032	8965	8850	8622	10141	11999
Accounts Payable	294	392	399	475	561	502	445	599	732	
Long-Term Debt	2747	3382	3821	4189	4731	5503	5391	5410	6624	7925
Shareholder's Equity	1404	1318	1467	1897	1819	1987	2052	2842	2910	2476
D/E Ratio	1.96	2.57	2.60	2.21	2.60	2.77	2.63	1.90	2.28	3.2

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.8%	2.4%	2.6%	2.7%	2.3%	2.9%	2.4%	7.1%	2.2%	-0.2%
Return on Equity	8.3%	12.5%	15.1%	14.1%	11.8%	16.0%	13.0%	32.4%	9.5%	-0.9%
ROIC	2.9%	3.8%	4.2%	4.2%	3.5%	4.3%	3.5%	10.1%	3.1%	-0.2%
Shares Out.	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0	53.1	52.3
Revenue/Share	99.00	118.92	123.31	123.28	125.17	123.39	126.65	137.71	159.58	167.49
FCF/Share	-0.99	-12.92	-19.69	-16.72	-16.52	-23.02	-5.70	-5.90	-26.86	

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

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