FedEx Corporation (FDX)

Updated July 1st, 2019 by Nikolaos Sismanis

Key Metrics

Current Price:	$158	**5 Year CAGR Estimate:**	15.6%	**Market Cap:**	$41.1B
Fair Value Price:	$233	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/25/20
% Fair Value:	68%	**5 Year Valuation Multiple Estimate:**	8.0%	**Dividend Payment Date:**	07/12/20
Dividend Yield:	1.6%	**5 Year Price Target**	$311	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971. The company offers a variety of services including transportation, e-commerce, and business services. It operates four core segments: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx provides domestic and international shipping for package delivery and freight. It also provides sales, marketing, information technology, communications, customer service, technical support, billing, and collection services.

On June 30th, FedEx reported financial results for its Q4 and full-year 2020. For the quarter, revenue decreased by 3% to $17.4 billion against the comparable quarter a year ago. The adjusted operating margin saw an expansion to 5.2%, but EPS still suffered a 49.5% decline, dropping at $2.53. FedEx management noted that there were many headwinds, in regard to COVID-19, which caused operating costs to increase by $125 million. However, online deliveries saw a surge in volume, as many retail stores were forced to shut down. That partially offset the adverse conditions, allowing the company to achieve a profitable FY2020, reporting full-year EPS at $9.50. The company is not providing an earnings forecast for fiscal 2021 as the timing and pace of an economic recovery are uncertain.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.76	$4.90	$6.59	$6.23	$6.75	$8.95	$10.80	$12.30	$15.31	$15.52	**$9.50**	**$20.74**
DPS	$0.44	$0.48	$0.52	$0.56	$0.60	$0.80	$1.00	$1.60	$2.00	$2.60	**$2.60**	**$3.48**
Shares[1]	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9	**260.9**	**248.1**

In our previous report, we predicted FY2020 EPS to be 35% lower than FY2019 due to the disadvantageous economic conditions caused by COVID-19. Despite unprecedented economic uncertainties, we came close as the actual figure is 38%. Despite such conditions, FedEx managed to deliver solid profitability, maintaining an impressive EPS CAGR of 17.1% over the past decade. Post earnings, shares of FedEx surged as much as 15%, as residential business-to-consumer business, and air cargo beat the market's expectations.

If it wasn't for COVID-19, FedEx should have seen EPS of around $15.50. As the economy reopens, we expect that FedEx will return to positive EPS growth. We maintain both medium-term EPS and DPS CAGR projections at 6% off of 'normalized EPS' of $15.50. The company has lots of room to grow distributions. However, management may preserve the dividend at $2.60 for a third consecutive year to enhance liquidity.

No shares were repurchased, and no plans towards resuming buybacks were announced.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.6	17.9	13.0	15.0	18.5	18.4	14.4	14.6	15.2	13.5	**16.6**	**15.0**
Avg. Yld.	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	**1.6%**	**1.8%**

1. Shares in millions; Last Dividend Increase based on TTM.

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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Because of its sensitivity to economic growth (and decline), historically, FedEx has traded for a wide range of P/Es. FedEx trades at a P/E of 16.6, which is close to its 2010-2020 average P/E of 16.1. In the past 20 years, time and time again, FedEx had traded at fair P/Es of 16.6-17.7. While we expect that FedEx's EPS will grow from here, we are retaining a fair P/E of 15 for 2025, for being prudent. Shares appear to be around fair value at their current price. However, should FedEx fails to deliver to the market's increased expectations, a potential multiple contraction towards a P/E of 15 could weight shares down, contributing by around 2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

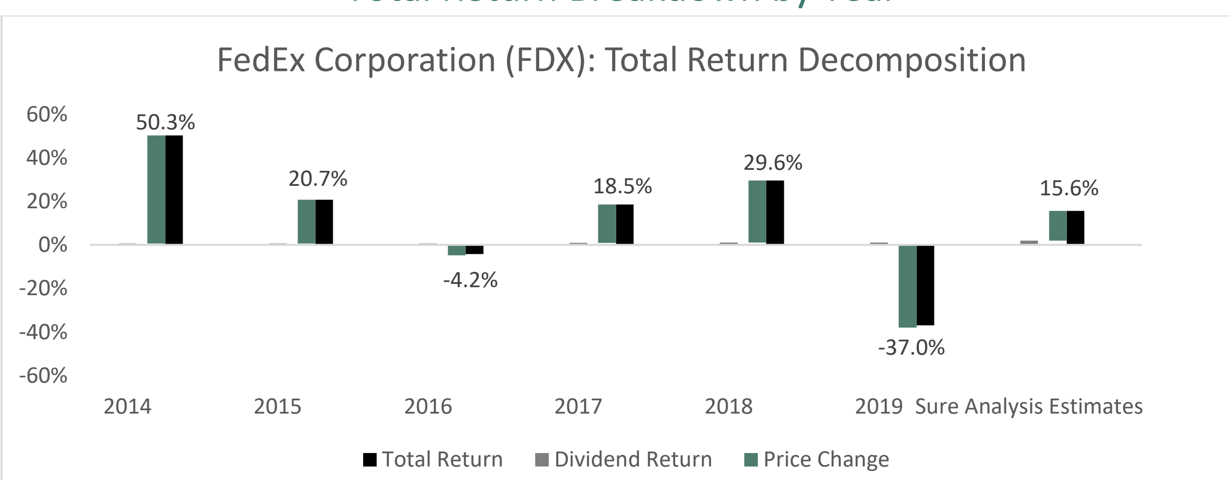
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12%	10%	8%	9%	9%	9%	9%	13%	13%	17%	**27%**	**27%**

FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is high, at 6.29 times the company's operating cash flows, and the dividend payout ratio is low, at only 27%. Considering the sector's duopolistic nature, with FedEx and UPS being essentially the only market participants, the company is subject predictable cash flows and enjoys massive economies of scale. Concerns of Amazon (AMZN) executing its own fulfillments have worried investors. However, the ecommerce giant was responsible for only 1.3% of last year's sales. FedEx's expertise and massive logistics network should provide a great moat in the future. Management estimates CAPEX of $4.9 billion in fiscal 2021 to maintain its competitive advantages. Regardless FedEx remains a recession-vulnerable business. While the company has proven it can remain profitable in a downturn, its revenue and earnings are likely to decline further under adverse economic conditions. The dividend is unlikely to be cut even in a severe scenario, though, thanks to its low payout ratio.

Final Thoughts & Recommendation

We expect FedEx to grow the dividend in the next couple of years, as profitability is resuming to prior levels. The current yield of 1.6% may not present the most attractive income option. However, investors are buying into a quality company, with a robust balance sheet, and a long-term track record of shareholder value creation. Our estimates point towards medium-term CAGR returns of 15.6%, despite the post-earnings rally. While some risks remain, we rate FedEx a buy, as the company capitalizes on being the backbone of the ever-growing e-commerce expansion in the long-run.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	39304	42680	44287	45567	47453	50365	60319	65450	69693	69217
Gross Profit	7789	8710	9398	9757	10748	11826	13318	14102	14827	13344
Gross Margin	19.8%	20.4%	21.2%	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%
SG&A Exp.	---	---	1368	15	2190	1498	---	---	---	---
D&A Exp.	1973	2113	2386	2587	2611	2631	2995	3095	3353	3615
Operating Profit	2467	3320	5094	3815	2143	3077	4566	4652	4786	2852
Operating Margin	6.3%	7.8%	11.5%	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%
Net Profit	1452	2032	2716	2324	1050	1820	2997	4572	540	1286
Net Margin	3.7%	4.8%	6.1%	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%
Free Cash Flow	607	828	1313	731	1019	890	-186	-989	123	-771
Income Tax	813	1109	1622	1334	577	920	1582	-219	115	383

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	27385	29903	33567	33070	36531	45959	48552	52330	54403	73537
Cash & Equivalents	2328	2843	4917	2908	3763	3534	3969	3265	2319	4881
Accounts Receivable	4763	4704	5044	5460	5719	7252	7599	8481	9116	10102
Inventories	437	440	457	463	498	496	514	525	553	572
Goodwill & Int. Ass.	2326	2387	2755	2790	4017	7755	7683	7453	7300	6372
Total Liabilities	12165	15176	16169	17793	21538	32175	32479	32914	36646	55242
Accounts Payable	1702	1613	1879	1971	2066	2944	2752	2977	3030	3269
Long-Term Debt	1667	1667	2990	4737	7268	13762	14931	16585	17581	22003
Shareholder's Equity	15220	14727	17398	15277	14993	13784	16073	19416	17757	18295
D/E Ratio	0.11	0.11	0.17	0.31	0.48	1.00	0.93	0.85	0.99	1.20

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.6%	7.1%	8.6%	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%
Return on Equity	10.0%	13.6%	16.9%	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%
ROIC	8.9%	12.2%	14.8%	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%
Shares Out.	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9	262.45
Revenue/Share	123.99	134.64	139.71	146.99	165.34	180.52	223.40	240.63	262.99	263.74
FCF/Share	1.91	2.61	4.14	2.36	3.55	3.19	-0.69	-3.64	0.46	-2.94

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

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