peditors International of Washingtion Inc. (EXPD)

Updated September 17th, 2020 by Felix Martinez

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$15.7B
Fair Value Price:	$66	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/29/20[1]
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.3%	**Dividend Payment Date:**	12/16/20[2]
Dividend Yield:	1.1%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	26
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4%

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. The company has a market capitalization of $15.7 Billion, and the company has been growing its dividend for 26 consecutive years. The company is also part of the exclusive Dividend Aristocrats, which are companies that have increased their dividend for 25 years or more.

On August 04, 2020, the company reported second-quarter earnings as well as the first half of Fiscal Year FY(2020). Revenues were up by 27%, from $2.02 billion in 2Q19 to $2.6 billion this quarter. Up 11% for the first half of the year over year. The Airfreight services segment did all the heavy lifting has the other two segments lag behind YoY. The air market has seen a huge increase in air capacity because the demand for shipping technology-related equipment, medical equipment, supplies, and other priority goods has increased substantially. Operating income also increased from $192 million to $247 million, or an increase of 29%, and up 7% for 1H2020 compared to 1H2019. Diluted Net Earnings per share (EPS) increased by 24% to $1.09 from $0.88 last year second-quarter.

The COVID-19 pandemic affected the company as Airfreight tonnage volume decreased 10%, and ocean container volume decreased 14% Year over Year (YoY). The company saw a significant decline in shipments from customers in retail, aerospace, automotive, and the oil and energy sectors.

The company repurchased 0.4 million shares of common stock at an average price of 77.46 and $71.41 during the second quarter.

Consensus estimates that the company will earn $3.69for the full year 2020, increasing from $3.00 since last reported. Thus, we will use $3.69 EPS 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	***$3.69***	***$4.71***
DPS	$0.40	$0.50	$0.56	$0.60	$0.64	$0.72	$0.80	$0.84	$0.90	$1.00	***$1.04***	***$1.33***
Shares[3]	216.0	215.0	212.0	207.0	197.0	190.0	182.0	182.0	178.0	174.0	***171.0***	***171.0***

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 8.8%. It has increased slightly to 9% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down to about 5% for the foreseeable future.

Net margin has compressed slightly from 7.6% in FY2018 to 7.3% in FY2019. The company cash and cash equivalents decreased from $1.23 billion to now $1.18 billion or fallen (4.1)%. EXPD has grown its dividend for 26 consecutive years,

[1] Estimate Date
[2] Estimate Date
[3] Shares count in millions.

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with a 10-year dividend growth rate of 10.7% and a five-year growth rate of 7.6%. The company increased its dividend by 4% from $0.50 to now $0.52. This was announced on May 6. We estimate future dividend growth of 5% because of the earnings slow down. The company pays out dividends semi-annually.

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	***24.9***	***18.0***
Avg. Yld.	1.0%	1.0%	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	***1.1%***	***1.6%***

The company's shares 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 the slower growth expected moving forward. With that said, the company has a current PE if 24.9 is based on our FY 2020 EPS estimate of $3.69. This is higher than EXPD 5-year average PE of 21.3. The current dividend yield of 1.1% is 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 28% 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%	***28%***	***28%***

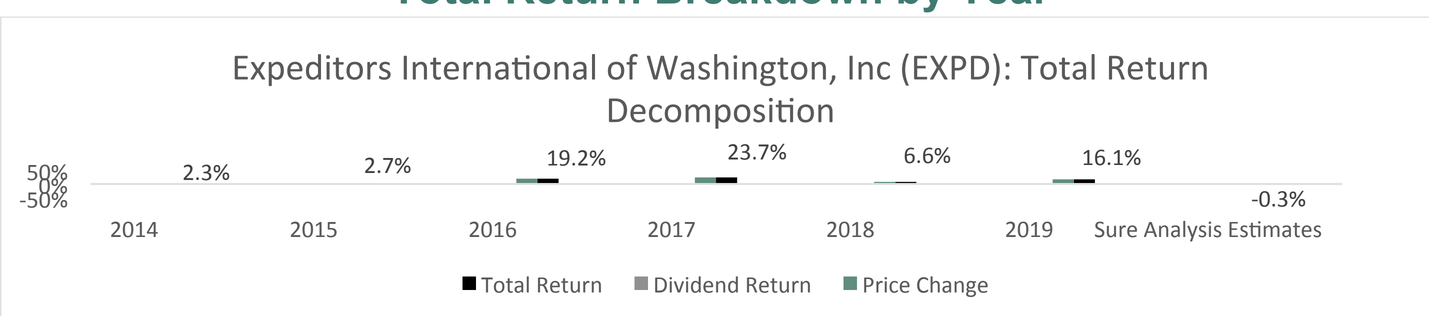
During the Great Recession, the company saw a decrease of 19% in earnings from $1.37 in 2008 to $1.11 in 2009. However, EPS bounced right back up to $1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and 2019. However, Expeditors made adjustments and continued to grow earnings. EXPD has a strong balance sheet with a debt to equity ratio of only 0.57, which is higher than the 0.53 debt to equity ratio that the company reported for last quarter. The company has a Debt to Equity ratio of 1.72, which is an improvement from year-end FY2019. 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 have a long history of growing earnings and dividends. The company is expected to continue to grow its earnings for the foreseeable future and its dividend. However, the high valuation means we expect weak total returns of (0.3)% ahead. Thus, we rate EXPD as a sell at the current price.

Total Return Breakdown by Year



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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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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.