Ryder System, Inc. (R)

Updated October 28th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	2.7%	**Market Cap:**	$2.6 B
Fair Value Price:	$35	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/20/20
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	12/18/20
Dividend Yield:	4.5%	**5 Year Price Target**	$45	**Years Of Dividend Growth:**	15
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**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 $3 billion commercial transportation, logistics and supply chain management solutions company with 250,000+ vehicles and 55 million square feet of warehouse space. 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 generated nearly $9 billion in revenue last year.

On October 28th, 2020 Ryder released Q3 2020 results for the period ending September 30th, 2020. For the quarter, Ryder recorded revenue of $2.151 billion, down 3.3% from Q3 2019. A 10.8% increase in the Supply Chain Solutions segment was more than offset by declines in Fleet Management Solutions (down 7%) and Dedicated Transportation Solutions (down 17%). Reported earnings equaled $45.1 million or $0.85 per share compared to a loss of $91.5 million or -$1.75 per share in the prior year period. Adjusted earnings-per-share equaled $1.21 versus -$1.49 in Q3 2019.

Prior to the pandemic Ryder provided a 2020 forecast, expecting revenue to be up 0.8% to $9.0 billion and adjusted earnings-per-share in the $1.10 to $1.50 range, with the residual value change of used vehicles continuing to weigh on results. However, that guidance has been suspended amid the uncertainty. The company recently declared the same $0.56 quarterly dividend, the sixth straight payment at this mark.

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	***-$1.00***	***$4.47***
DPS	$1.04	$1.12	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	$2.12	$2.20	***$2.24***	***$2.46***
Shares[1]	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0	53.1	53.3	***53***	***53***

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.

Ryder faces challenges from increasing costs, more stringent regulation, and disruptive technologies; not to mention softer demand in the power vehicle resale market. And this was before the COVID-19 pandemic. While the company is considered essential, providing supply chain and transportation services, demand has weakened in the short-term. To that end, when paired with the previous challenges, we are forecasting a loss for this year. However, we are using $3.50 in underlying earnings power, along with 5% annual growth, for the purposes of valuation and fair value estimates.

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. 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.

[1] In millions.

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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	---	***14.1***	***10.0***
Avg. Yld.	2.5%	2.2%	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	***4.5%***	***5.5%***

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 value multiple. Keep in mind this year's reported earnings are expected to be negative, so the figure presented above is 14.1 times earnings power of $3.50 per share, implying a valuation headwind. On the other hand, the 4.5% dividend yield will add 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%	**---**	***55%***

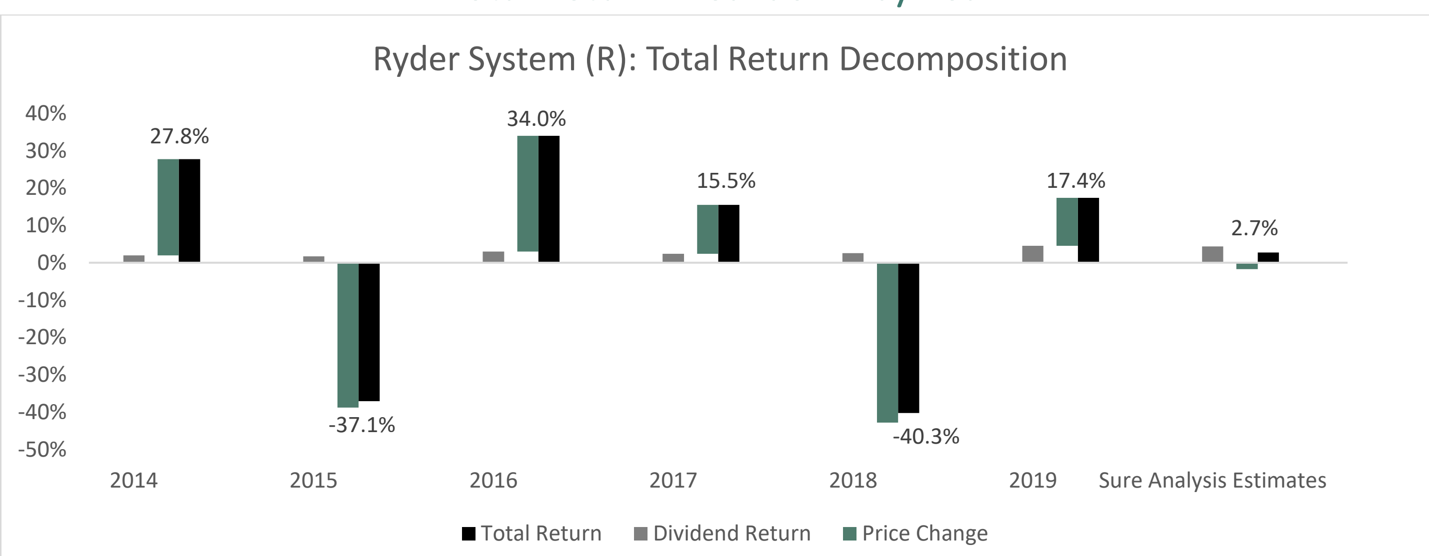
There have been three instances – 2008-09, 2015-17 and 2018-19 – where the company reported a material decline in per share earnings (-65%, -26% and -83% respectively). Indeed, 2020 is poised to be another down year. While this comes with a cyclical industry, we are encouraged by Ryder's ability to rebound. If the company can get back to normalized earnings power, the dividend would be reasonably covered.

Of particular note to Ryder's safety is the company's interest expense, which totaled $241 million last year against underlying earnings power near ~$200 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. This is something to watch in the current crisis.

Final Thoughts & Recommendation

Shares are up 32% since our last report. Total return potential comes in at 2.7% per annum, stemming from 5% growth and a 4.5% starting dividend yield offset by the potential for a meaningful valuation headwind. We note that the company is expected to post a loss this year and is working through a number of challenges, not to mention a hefty debt load. We remain cautious in this regard, as earnings may not come back as anticipated and the company's leverage is significant. In addition, shares have appreciated materially as of late. Shares earn a hold rating.

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	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.