Ryder System, Inc. (R)

Updated February 11th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	0.9%	**Market Cap:**	$3.4 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/12/21
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.8%	**Dividend Payment Date:**	03/19/21
Dividend Yield:	3.4%	**5 Year Price Target**	$56	**Years Of Dividend Growth:**	16
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 over $8 billion in revenue last year.

On February 11th, 2021 Ryder released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter, Ryder recorded revenue of $2.213 billion, down -2.8% from Q4 2019. A 9.6% increase in the Supply Chain Solutions segment was more than offset by declines in Fleet Management Solutions (down -7%) and Dedicated Transportation Solutions (down -13%). Adjusted earnings equaled $43.9 million or $0.83 per share compared to a loss of -$0.01 per share in Q4 2019.

For the year Ryder generated revenue of $8.42 billion, down -5.7% compared to 2019. A small rise in Fleet Management Solutions and flat results from Supply Chain Solutions were more than offset by a decline in Dedicated Transportation Solutions. Ryder posted a loss of -$0.27 per share compared to $1.01 in 2019.

Ryder provided a 2021 outlook, anticipating $4.15 to $4.65 in adjusted earnings-per-share, including $0.50 to $0.60 in Q1. The company also recently declared the same $0.56 quarterly dividend, the seventh straight payment at this mark.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.49	$4.04	$4.87	$5.59	$6.13	$5.41	$4.53	$5.79	$1.01	-$0.27	***$4.40***	***$5.10***
DPS	$1.12	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	$2.12	$2.20	$2.24	***$2.24***	***$2.60***
Shares[1]	51.1	51.4	53.3	53.0	53.5	53.5	53.0	53.1	53.3	52.4	***52***	***52***

If you look back to 2008, when the company was earning $4.49 per share, Ryder grew earnings-per-share by an average compound rate of roughly 2.6% per annum through 2018. However, results dropped off materially in 2019 as the company dealt with a significant impact from residual value changes. Moreover, 2020 results were negative.

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. This showed up in 2020 with a loss.

Of course, there are 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. We are forecasting $4.40 for earnings-per-share, the midpoint of management's guidance, to go along with a 3% annua growth rate.

---

[1] In millions.

Ryder System, Inc. (R)

Updated February 11th, 2021 by Eli Inkrot

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	14.3	11.4	12.5	15.1	13.7	12.1	16.6	12.2	---	---	***14.8***	***11.0***
Avg. Yld.	2.2%	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	5.6%	***3.4%***	***4.0%***

Excluding 2019 and 2020, shares of Ryder 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 11 times earnings as a fair value multiple, taking into consideration a variety of challenges. With shares presently trading hands near 15 times the midpoint of management's guidance, this implies the potential for a valuation headwind. The dividend yield, sitting at 3.4%, should aid shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	32%	30%	27%	25%	25%	31%	40%	37%	---	---	***51%***	***%***

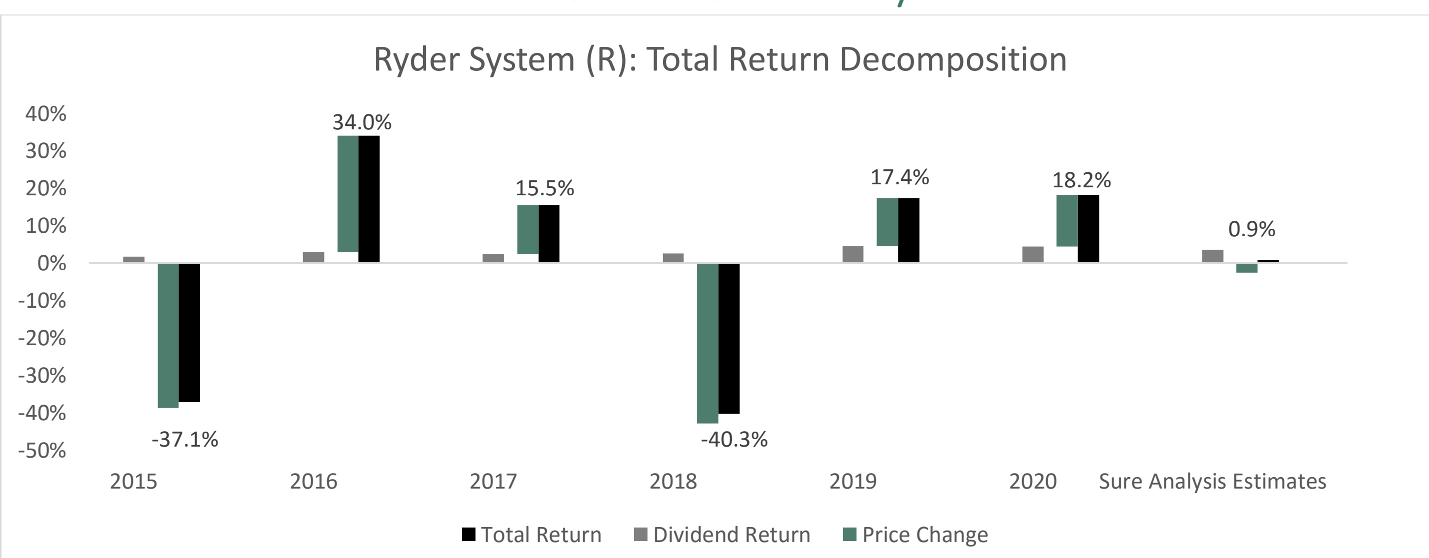
There have been three instances – 2008-09, 2015-17 and 2018-29 – where the company reported a material decline in per share earnings (-65%, -26% and -83% respectively). Further, 2020 results were negative. While this comes with a cyclical industry, we are encouraged by Ryder's ability to rebound. If 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 $261 million last year against underlying earnings power near ~$230 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

After being up 32% in our last report, shares are up another 33% in the last three months. Total return potential comes in at 0.9% per annum, stemming from 3% growth and a 3.4% dividend yield, offset by the potential for a valuation headwind. We note that the company posted a loss in 2020 and is still 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. With the significant appreciation as of late, shares now earn a sell rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Ryder System, Inc. (R)

Updated February 11th, 2021 by Eli Inkrot

Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.4%	2.6%	2.7%	2.3%	2.9%	2.4%	7.1%	2.2%	-0.2%
Return on Equity	12.5%	15.1%	14.1%	11.8%	16.0%	13.0%	32.4%	9.5%	-0.9%
ROIC	3.8%	4.2%	4.2%	3.5%	4.3%	3.5%	10.1%	3.1%	-0.2%
Shares Out.	51.1	51.4	53.3	53.0	53.5	53.5	53.0	53.1	52.3
Revenue/Share	118.9	123.31	123.28	125.17	123.39	126.65	137.71	159.58	167.49
FCF/Share	-12.9	-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.