FedEx Corporation (FDX)

Updated March 19th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$278	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$74 B
Fair Value Price:	$322	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/26/21[1]
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.0%	**Dividend Payment Date:**	07/13/21
Dividend Yield:	0.9%	**5 Year Price Target**	$431	**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 March 18th, FedEx reported its Q3-2021 financial results for the three-month period ending February 28th, 2021. For the quarter, revenues increased by 22.8% to $21.5 billion against the comparable quarter a year ago. Adjusted operating margin remained relatively decent at 4.9%, which led to EPS of $3.47 vs. $1.41 in Q3-2020. The company's impressive results were powered by the increased demand for fast and reliable deliveries as a result of COVID-19. More specifically, FedEx has been critical in the worldwide delivery of COVID-19 vaccines while simultaneously accommodating the ongoing unmatched e-commerce boom and helping the at-home supply chains move despite the overall challenges. The key drivers in the company's results were its expansion in FedEx International Priority and U.S. domestic residential package operations, as well as higher pricing, which offset the increased labor expenses and the severe winter during February that reduced operating income by an estimated $350 million. Management provided investors guidance for the first time since COVID-19, which came in quite close with our own previous estimates. FedEx expects EPS of $17.60 to $18.20, excluding mirror potential debt refining costs and TNT Expresses' integration expenses. If included, EPS is expected at $16.80 to $17.40. Considering the non-recurring nature of these expenses, we have embedded the midpoint of the first EPS range in our calculations, which comes at $17.90.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$4.60	$6.44	$8.61	$7.56	$3.70	$6.59	$11.25	$17.10	$2.06	$4.92	***$17.90***	***$23.95***
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[2]	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9	***265.4***	***248.1***

Despite the operational challenges over the past year, which pressured FedEx's profitability lower, the company is on track to deliver decade-high net income levels in FY2021. Powered by an all-time high demand for swift deliveries, as well as hopefully fewer challenges down the road (COVID-19 retreating/ better weather), EPS growth should resume going forward. In terms of its dividend, management decided to keep its distributions steady at $0.65 for the 12th consecutive quarter. We believe that this is a prudent move from management, despite the low payout ratio. This way, FedEx can still keep paying shareholders and avoid potential dividend cuts, which have not occurred since its first dividend was paid back in 2002.

[1] Estimated dividend dated based on past dividend dates.

[2] In millions

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We retain both our EPS and DPS CAGR expectations at 6%, as the company continues to dominate end expand its footprint in the world's logistics industry. Finally, FedEx has been executing a fair amount of buybacks, having retired around 17% of its shares over the past decade. While the share count has slightly grown this year, we expect buybacks to resume amid record profits, further sustaining its EPS growth.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.6	17.9	13	15	18.5	18.4	14.4	14.6	15.2	13.5	***15.5***	***18.0***
Avg. Yld.	0.60%	0.50%	0.60%	0.60%	0.50%	0.50%	0.60%	0.90%	0.90%	1.20%	***0.9%***	***0.8%***

Because of its sensitivity to economic growth (and decline), historically, FedEx has traded for a wide range of P/Es. FedEx is currently trading at a P/E of 15.5, which is close to its 2011-2021 average P/E of 16.1. To reflect the company's current EPS growth prospects and the market's overall valuation expansion amid the global low rate environment, we retain our fair P/E of 18.

Safety, Quality, Competitive Advantage, & Recession Resiliency

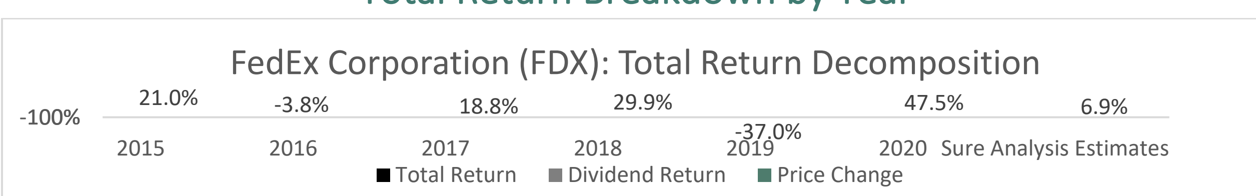
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	8%	7%	9%	23%	17%	15%	13%	126%	53%	***15%***	***15%***

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 6.18 times the company's operating cash flows, and the dividend payout ratio is low, below 20%. 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 a tiny fraction of FedEx' revenue before the split. During the past couple of quarters, the company has demonstrated how its logistics expertise and massive network make it essentially the most reliable transportation provider in the world, executing its deliveries with great consistency. This should provide a great moat in the future, as the company's reputation was forged with much positivity for customers and investors alike, over the past year. Further, while FedEx has been thought to be a recession-vulnerable business, COVID-19 highlighted how essential its operations are. The dividend is unlikely to be cut even in a severe scenario, thanks to its low payout ratio.

Final Thoughts & Recommendation

We expect FedEx to grow the dividend in the next couple of years, as its profitability has exceeded analyst and investor expectations alike. The current yield of 0.9% may not present the most attractive income option. On the one hand, investors are buying into a quality company with a robust balance sheet and a long-term track record of shareholder value creation. On the other hand, our estimates point towards medium-term returns of 6.9%. Considering the tiny yield and overall limited medium-term return potential, we believe that investors are likely to find more fruitful investment cases in terms of income and total returns elsewhere. We rate FedEx a hold.

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.