



FedEx Corporation (FDX)

Updated September 24th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$229	5 Year CAGR Estimate:	12.6%	Market Cap:	\$60.8 B
Fair Value Price:	\$296	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/11/21 ¹
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	12/28/21
Dividend Yield:	1.3%	5 Year Price Target	\$396	Years Of Dividend Growth:	1
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	15%

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 September 21st, FedEx reported its Q1-2022 financial results for the three-month period ending August 31st, 2021. For the quarter, revenues increased 13.8% to \$22.0 billion against the comparable quarter a year ago. Results increased primarily due to higher package and freight yields and increased international export express shipments. Further, despite higher costs to cover the increased demand for deliveries due to effective cost management and lower fuel costs, FedEx Freight reported record operating margins of 17.3%. Still, due to additional expenses related to a constrained labor market, non-GAAP EPS came in at \$4.37 vs. \$4.87 in Q1-2021.

For FY2022, management slightly adjusted its EPS expectations, estimating \$18.25 to \$19.50 (previously \$18.90 to \$19.90) before the MTM (market-to-market) retirement plan accounting adjustments. Excluding the estimated expenses associated with TNT Express's integration with FedEx, EPS should land anywhere from \$19.75 to \$21.00 (previously \$20.50 to \$21.00). Considering the non-recurring nature of these expenses, we have embedded the midpoint of the second EPS range in our calculations, which is \$20.40.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$6.44	\$8.61	\$7.56	\$3.70	\$6.59	\$11.25	\$17.10	\$2.06	\$4.92	\$19.45	\$20.40	\$27.30
DPS	\$0.53	\$0.57	\$0.65	\$0.85	\$1.15	\$1.70	\$2.15	\$2.60	\$2.60	\$2.60	\$3.00	\$4.01
Shares²	317	318	287	282	266	268	272	261	261	271	271	248

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. The company continues to dominate and expand its footprint in the world's logistics industry while achieving operational efficiencies due to its massive possible scalability. Further, the company announced it will increase its shipping rates by an average of 5.9%, effective January 3, 2022. In terms of the dividend, management has been prudent with hikes, always making sure that it retains a considerable margin of safety before a potential increase, despite the often low payout ratios. 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. We retain both our EPS and DPS CAGR expectations at 6%. 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 not declined this year, we expect buybacks to resume amid record profits, further bolstering EPS growth.

¹ Estimates dates based on past dividend dates.

² In millions



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.9	13	15	18.5	18.4	14.4	14.6	15.2	13.5	14.4	11.2	14.5
Avg. Yld.	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	1.3%	1.0%

Because of its sensitivity to economic growth (and decline), FedEx has historically traded with relatively reasonable valuation multiples in the mid-teens. Shares are currently trading with a forward P/E of 11.2 based on management's estimates, which is below its decade average P/E of 15.5. To reflect the company's current EPS growth prospects and the market's overall comparative valuation context, we believe that FedEx could trade at a slightly higher P/E of 14.5. Investors should continue to expect a tiny yield in the medium term despite the latest DPS hike.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	8%	7%	9%	23%	17%	15%	13%	126%	53%	13%	15%	15%

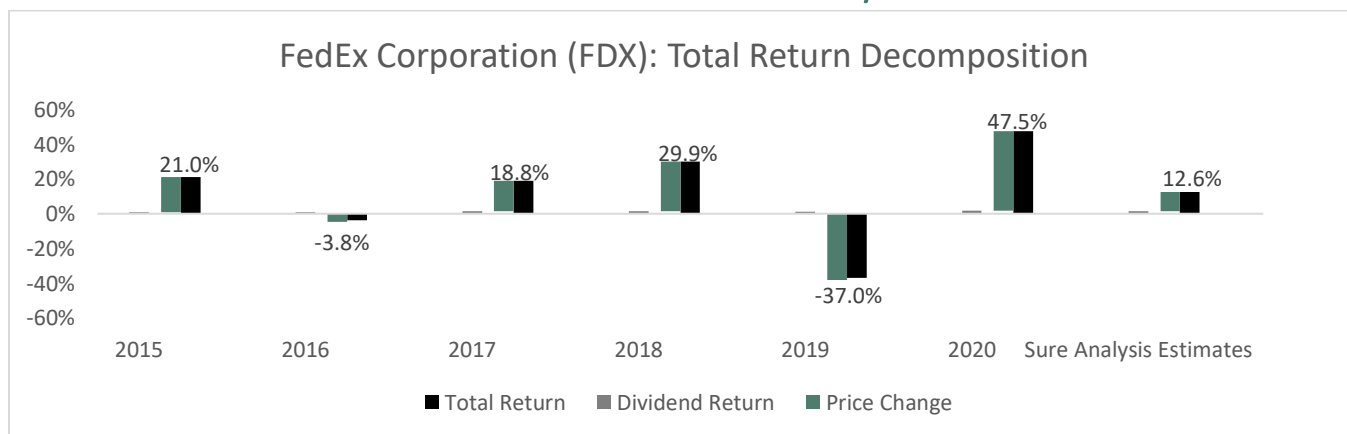
FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is high, at 9.16 times the company's operating cash flows, and the dividend payout ratio is low, just around 15%.

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. During the past couple of years, 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, during this period. 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

FedEx's current yield of 1.3% may still 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 annualized medium-term returns of 12.6%, powered by modest growth expectations and the potential for a noteworthy valuation expansion. Consequently, we rate FedEx a buy.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	42680	44287	45567	47453	50365	60319	65450	69693	69217	83960
Gross Profit	8710	9398	9757	10748	11826	13318	14102	14827	13344	17950
Gross Margin	20.4%	21.2%	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%	21.4%
SG&A Exp.	---	1368	15	2190	1498	---	---	---	---	---
D&A Exp.	2113	2386	2587	2611	2631	2995	3095	3353	3615	3793
Operating Profit	3320	5094	3815	2143	3077	4566	4652	4786	2852	5973
Operating Margin	7.8%	11.5%	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%	7.1%
Net Profit	2032	2716	2324	1050	1820	2997	4572	540	1286	5231
Net Margin	4.8%	6.1%	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.2%
Free Cash Flow	828	1313	731	1019	890	-186	-989	123	-771	4251
Income Tax	1109	1622	1334	577	920	1582	-219	115	383	1443

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	29903	33567	33070	36531	45959	48552	52330	54403	73537	82780
Cash & Equivalents	2843	4917	2908	3763	3534	3969	3265	2319	4881	7087
Accounts Receivable	4704	5044	5460	5719	7252	7599	8481	9116	10102	12070
Inventories	440	457	463	498	496	514	525	553	572	587
Goodwill & Int. Ass.	2387	2755	2790	4017	7755	7683	7453	7300	6372	7344
Total Liabilities	15176	16169	17793	21538	32175	32479	32914	36646	55242	58610
Accounts Payable	1613	1879	1971	2066	2944	2752	2977	3030	3269	3840
Long-Term Debt	1667	2990	4737	7268	13762	14931	16585	17581	22003	20350
Shareholder's Equity	14727	17398	15277	14993	13784	16073	19416	17757	18295	24170
D/E Ratio	0.11	0.17	0.31	0.48	1.00	0.93	0.85	0.99	1.20	0.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.1%	8.6%	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%	6.7%
Return on Equity	13.6%	16.9%	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%	24.6%
ROIC	12.2%	14.8%	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%	12.4%
Shares Out.	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9	262.45	264
Revenue/Share	134.64	139.71	146.99	165.34	180.52	223.40	240.63	262.99	263.74	318.03
FCF/Share	2.61	4.14	2.36	3.55	3.19	-0.69	-3.64	0.46	-2.94	16.10

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

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