Old Dominion Freight Line, Inc. (ODFL)

Updated March 29th, 2022, by Robert F. Abbott

Key Metrics

Current Price:	$320	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$36.7 B
Fair Value Price:	$234	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date[1]:**	06/01/22
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date[1]:**	06/16/22
Dividend Yield:	0.4%	**5 Year Price Target**	$413	**Years Of Dividend Growth:**	5
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Old Dominion Freight Line, Inc. (ODFL) is one of the largest less-than-truckload (LTL) carriers in North America. Based in Thomasville, NC, it has a market cap of $36 billion; its 23,000 employees operate 251 service centers in 48 states, 10,000 tractors (trucks), and 39,000 trailers. Founded in 1934, its largest competitor in the highly competitive LTL industry is JB Hunt Transport Services Inc.

The company began paying a dividend in 2017 and has risen its payout from $0.27 to $1.20 annually, including a 50% increase earlier this year. However, the dividend yield (currently 0.4%) has been relatively flat because the share price has also risen.

On February 2nd, 2022, ODFL reported fourth quarter and full-year results for 2021. Total revenue of $5.26 billion was 30.9% higher than in 2020, while diluted earnings per share grew 56.5%, from $5.68 to $8.89. The fourth quarter delivered similar results, buoyed by an increase in LTL revenue and a 2.7% reduction in the operating ratio.

Old Dominion has rapidly grown its cash flow per share, maintaining the possibility of strong dividend per share growth. Should growth in the share price slow or stop, future dividend yields could be higher.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.31	$1.59	$2.07	$2.38	$2.37	$2.91	$4.92	$5.11	$5.68	$8.89	***$10.65***	***$18.77***
DPS	---	---	---	---	---	$0.27	$0.35	$0.45	$0.60	$0.80	***$1.20***	***$3.66***
Shares	129	129	129	127	124	124	122	120	117	116	***114***	***110***

The company expects continued growth along the lines of what it saw in 2021, with customer demand expected to be about the same. Much of its current momentum comes from e-commerce deliveries.

Over the past five years, earnings-per-share has risen by an average of 30.3% per year. Earnings-per-share has been getting a boost from share buybacks since 2015, with the company spending $599 million on repurchases in 2021. From 2014 to 2021, ODFL reduced its share count from 129 million to 116 million, a -10% reduction.

We are forecasting $10.65 in earnings-per-share for 2022, to go along with a 12% annual growth rate, as the company continues to invest heavily in growing the business and cutting costs without sacrificing service quality.

Old Dominion's on-time service reached 99% in 2020, while at the same time, its cargo claims ratio declined to 1%. On pricing, it takes a long-term approach aimed at offsetting cost inflation and new investments. As well as service centers and trucks, it invests in IT and employee wages/benefits (none of its employees are unionized).

In the past five years, the dividend has increased by an average of 34.8% per year, including this year when it went up by 50% (from $0.80 to $1.20). We estimate slower but still significant average annual growth of 25%, as the company works toward a normalized payout ratio. At that rate, the 2027 dividend would amount to $3.66, and the expected payout ratio would be 20%.

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[1] Estimated date.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.4	17.9	20.7	19.4	19.2	22.7	19.4	20.8	29.6	30.5	***30.0***	***22.0***
Avg. Yld.	---	---	---	---	---	0.4%	0.4%	0.4%	0.4%	0.3%	***0.4%***	***0.9%***

Old Dominion has traded with an average P/E ratio of about 22 times earnings over the last decade, which is what we are using for a fair value estimate. With shares presently trading hands near 30 times expected earnings, this implies the possibility for a notable headwind. While the dividend yield is quite low, there is the propensity for it to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	9%	7%	9%	11%	9%	***11%***	***20%***

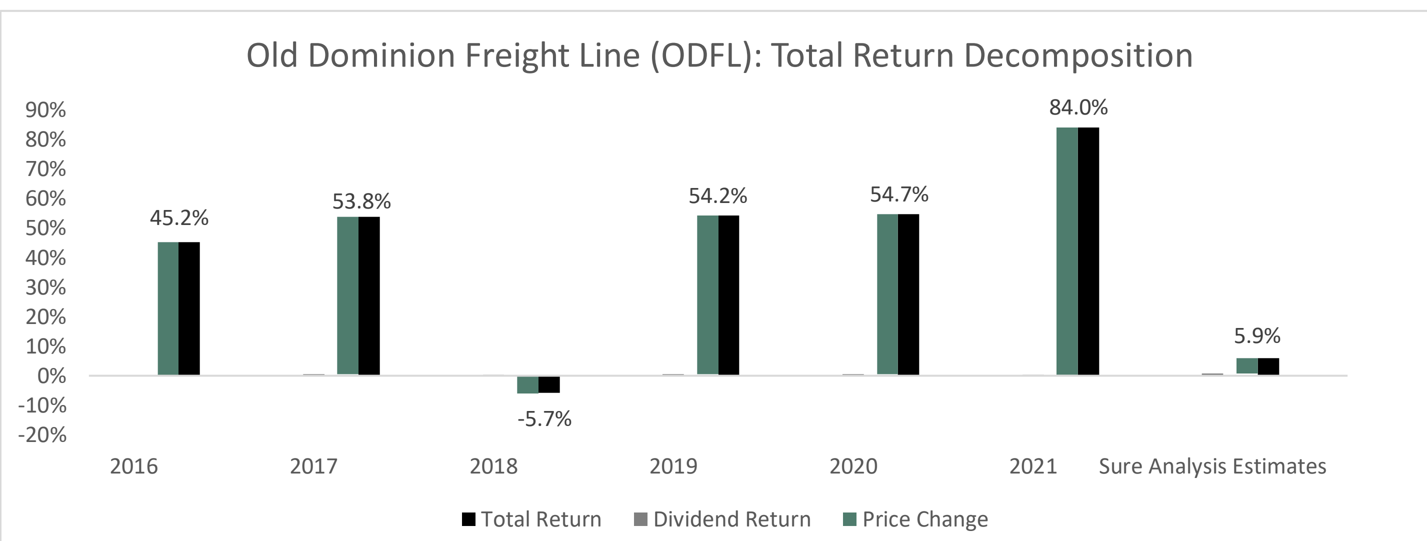
Old Dominion argues its competitive advantage lies in being able to deliver superior service at a fair price. The company is reasonably recession resistant. Despite the sharp economic downturn in 2020, its revenue was roughly flat, but its EPS and cash flow per share were up by high single digits. In the 2008 through 2010 period Old Dominion posted earnings-per-share of $0.55, $0.28, and $0.60.

Debt is not a concern, as Old Dominion has only $100 million in debt, none of which is due in the next five years. Long-term interest is about $2 million per year, and the interest coverage ratio is high. Total debt and cash per share are $0.87 and $6.23, respectively.

Final Thoughts & Recommendation

Old Dominion is a powerful company, one of America's leading LTL carriers, due to both internal and external factors. Internally, it has invested in new growth and externally, it has benefited from the e-commerce revolution. It is financially sound and profitable, throwing off cash flow that allows it to keep investing in the business and growing its dividend. In 2021, the security delivered an 84% total return. Total expected return comes in at 5.9% per annum, driven by a 12% anticipated growth rate and 0.4% dividend yield, offset by the potential for a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,135	2,338	2,788	2,972	2,992	3,358	4,044	4,109	4,015	5,256
Gross Profit	471	536	687	757	745	875	1,144	1,170	1,229	1,775
Gross Margin	22.1%	22.9%	24.7%	25.5%	24.9%	26.1%	28.3%	28.5%	30.6%	33.8%
SG&A Exp.	109	124	145	154	152	177	194	206	184	224
D&A Exp.	111	127	146	165	190	206	230	254	261	260
Operating Profit	285	338	441	498	484	576	817	819	907	1,392
Op. Margin	13.4%	14.5%	15.8%	16.8%	16.2%	17.1%	20.2%	19.9%	22.6%	26.5%
Net Profit	169	206	268	305	296	464	606	616	673	1,034
Net Margin	7.9%	8.8%	9.6%	10.3%	9.9%	13.8%	15.0%	15.0%	16.8%	19.7%
Free Cash Flow	(45)	55	24	92	148	154	312	505	708	663
Income Tax	104	123	165	185	182	112	210	208	229	354

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,713	1,932	2,207	2,467	2,696	3,068	3,545	3,996	4,369	4,822
Cash & Equivalents	13	30	35	11	10	127	190	404	401	463
Acc. Receivable	219	248	303	311	320	394	428	398	445	567
Goodwill & Int.	19	19	19	19	19	19	19	---	---	---
Total Liabilities	687	700	713	782	845	792	865	915	1,043	1,142
Accounts Payable	45	37	45	67	89	74	79	70	69	83
Long-Term Debt	240	191	156	134	105	95	45	45	100	100
Total Equity	1,026	1,232	1,494	1,685	1,851	2,277	2,680	3,081	3,326	3,680
D/E Ratio	0.23	0.16	0.10	0.08	0.06	0.04	0.02	0.01	0.03	0.03

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.5%	11.3%	12.9%	13.0%	11.5%	16.1%	18.3%	16.3%	16.1%	22.5%
Return on Equity	18.0%	18.3%	19.6%	19.2%	16.7%	22.5%	24.4%	21.4%	21.0%	29.5%
ROIC	14.2%	15.3%	17.4%	17.6%	15.7%	21.4%	23.8%	21.0%	20.5%	28.7%
Shares Out.	129	129	129	127	124	124	122	120	117	116
Revenue/Share	16.52	18.09	21.57	23.21	23.98	27.17	32.87	34.07	33.88	45.15
FCF/Share	(0.35)	0.43	0.19	0.72	1.18	1.25	2.53	4.18	5.97	5.69

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