Ryder System, Inc. (R)

Updated May 3rd, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	12.7%	**Market Cap:**	$3.6 B
Fair Value Price:	$168	**5 Year Growth Estimate:**	-7.0%	**Ex-Dividend Date:**	5/20/22[1]
% Fair Value:	42%	**5 Year Valuation Multiple Estimate:**	18.8%	**Dividend Payment Date**	6/17/22
Dividend Yield:	3.3%	**5 Year Price Target**	$117	**Years Of Dividend Growth:**	17
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

In 1933, Jim Ryder made a $35 down payment on one truck. Today that has transformed into a $3.6 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 $9.7 billion in revenue last year.

On July 14th, 2021, Ryder raised its quarterly dividend to $0.58 after paying the same $0.56 dividend for 8 quarters.

In late April, Ryder reported (4/27/22) financial results for the first quarter of fiscal 2022. The company grew its operating revenue 22% over last year's quarter thanks to double-digit growth in all the divisions. Adjusted earnings-per-share jumped from $1.09 in last year's quarter to an all-time high of $3.59, mostly thanks to strong sales of used vehicles and rental. As only 40% of lease fleet has been re-priced so far this year, Ryder expects to greatly benefit from the renewal of the remaining leases at much higher prices. As a result, it raised its guidance for its adjusted earnings-per-share in 2022 from $11.00- $12.00 to $13.00-$14.00. We have thus raised our forecast from $11.50 to $14.00.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.04	$4.87	$5.59	$6.13	$5.41	$4.53	$5.79	$1.01	-$0.27	$9.58	***$14.00***	***$9.74***
DPS	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	$2.12	$2.20	$2.24	$2.28	***$2.32***	***$2.52***
Shares[2]	51.4	53.3	53.0	53.5	53.5	53.0	53.1	53.3	52.4	54.0	***50.0***	***45.0***

If you look back to 2008, when the company was earning $4.49 per share, Ryder has grown its earnings-per-share by an average compound rate of 6.0% per annum. However, the company has a volatile performance record. Earnings plunged in 2019 as the company dealt with a significant impact from residual value changes. Moreover, results in 2020 were negative due to the pandemic.

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 pandemic. While the company is considered essential, providing supply chain and transportation services, demand is volatile.

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 raising it in 2005. In the last decade, the company has grown its dividend at a 7.4% average annual rate.

We are now forecasting earnings-per-share of $14.00 in 2022, the high end of management's latest guidance given the exceptionally strong business momentum. This record level of earnings forms a high comparison base for future earnings and hence we expect a -7.0% average annual decrease in earnings-per-share over the next five years.

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[1] Estimated date.

[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	11.4	12.5	15.1	13.7	12.1	16.6	12.2	---	---	8.1	***5.1***	***12.0***
Avg. Yld.	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	5.6%	2.9%	***3.3%***	***2.2%***

Excluding 2019 and 2020, shares of Ryder have traded hands with an average price-to-earnings ratio of 12.7, with a range from 8 to 17 times earnings. We are using 12 times earnings as a fair value multiple. The stock is currently trading at a price-to-earnings ratio of only 5.1, mostly due to the blowout earnings expected this year. If it reaches our fair valuation level in five years, it will enjoy an 18.8% annualized gain thanks to the expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	27%	25%	25%	31%	40%	37%	---	---	24%	***17%***	***26%***

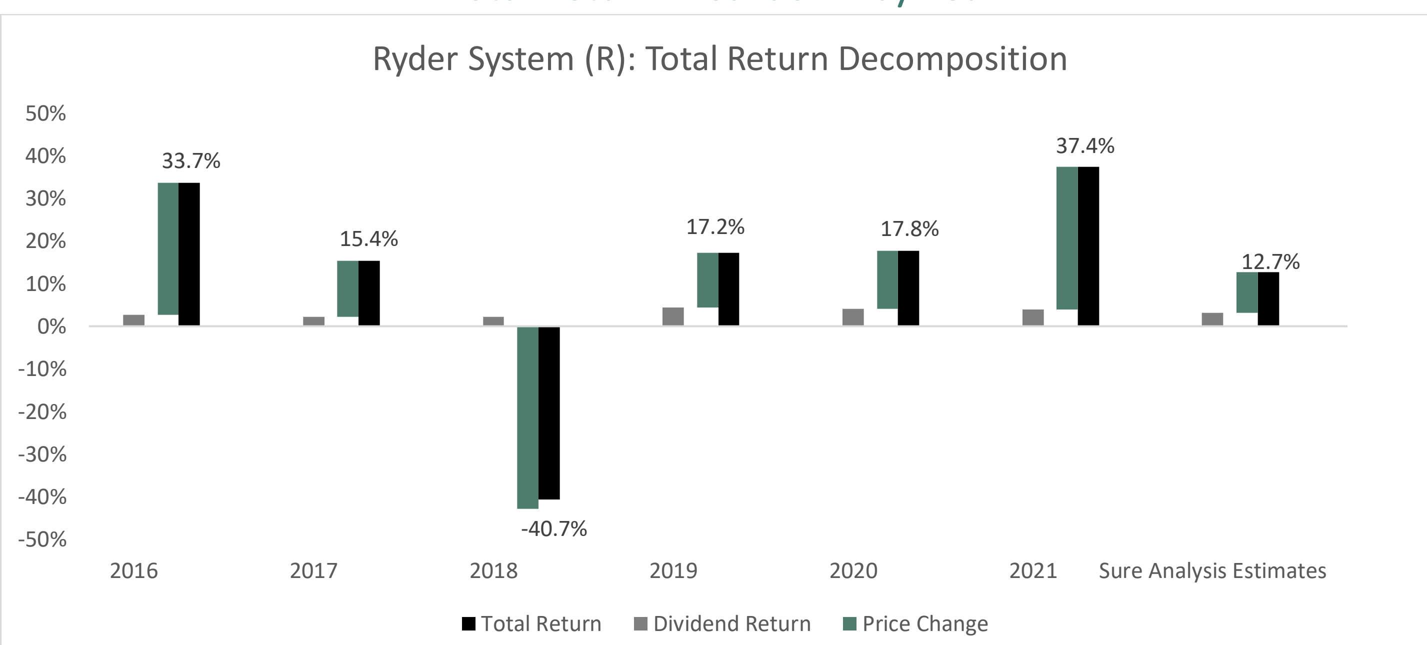
There have been three instances – 2008-09, 2015-17 and 2018-19 – where the company reported a material decline in earnings-per-share (-65%, -26% and -83% respectively). Further, the company incurred losses in 2020. While this comes with a cyclical industry, we are encouraged by Ryder's ability to rebound. The company has gotten back to normalized earnings power, so now the dividend is reasonably covered once again.

Of particular note to Ryder's safety is the company's interest expense, which totaled $261 million in 2020 against operating income of $487 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%. Ryder is thriving right now so it can easily service its debt but its high leverage could mean that the company might come under pressure during a severe future downturn.

Final Thoughts & Recommendation

The stock of Ryder has more than doubled off its bottom in 2020. Nevertheless, it could still offer an average annual return of 12.7% over the next five years thanks to a 3.3% dividend yield and an 18.8% valuation tailwind, partly offset by a -7.0% annual decrease in earnings-per-share. The stock earns a buy 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,257	6,419	6,639	6,572	6,758	7,280	8,414	8,926	8,420	9,663
Gross Profit	1,249	1,320	1,386	1,485	1,501	1,442	1,590	1,371	1,275	1,802
Gross Margin	20.0%	20.6%	20.9%	22.6%	22.2%	19.8%	18.9%	15.4%	15.1%	18.6%
SG&A Exp.	763	791	816	823	804	871	849	907	922	1,055
D&A Exp.	989	1,040	1,094	1,175	1,226	1,299	1,457	1,980	2,143	1,811
Operating Profit	351	397	454	546	584	456	616	341	230	615
Operating Margin	5.6%	6.2%	6.8%	8.3%	8.6%	6.3%	7.3%	3.8%	2.7%	6.4%
Net Profit	210	238	218	305	263	720	285	(24)	(122)	519
Net Margin	3.4%	3.7%	3.3%	4.6%	3.9%	9.9%	3.4%	-0.3%	-1.5%	5.4%
Free Cash Flow	(999)	(871)	(876)	(1,226)	(304)	(232)	(1,332)	(1,595)	1,035	234
Income Tax	102	126	118	163	142	(424)	103	(19)	(18)	171

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8,319	9,104	9,851	10,953	10,902	11,464	13,348	14,475	12,932	13,834
Cash & Equivalents	66	62	50	61	59	78	68	74	151	234
Accounts Receivable	671	680	693	709	740	899	1,087	1,060	1,052	1,281
Inventories	64	64	66	64	70	74	79	81	61	69
Goodwill & Int. Ass.	465	456	460	444	435	438	534	526	518	741
Total Liabilities	6,851	7,207	8,032	8,965	8,850	8,622	10,811	11,999	10,676	11,036
Accounts Payable	399	475	561	502	445	599	732	595	547	748
Long-Term Debt	3,821	4,189	4,731	5,503	5,391	5,410	6,649	7,925	6,610	6,580
Shareholder's Equity	1,467	1,897	1,819	1,987	2,052	2,842	2,537	2,476	2,256	2,798
LTD/E Ratio	2.60	2.21	2.60	2.77	2.63	1.90	2.62	3.20	2.93	2.35

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.6%	2.7%	2.3%	2.9%	2.4%	6.4%	2.3%	-0.2%	-0.9%	3.9%
Return on Equity	15.1%	14.1%	11.8%	16.0%	13.0%	29.4%	10.6%	-1.0%	-5.2%	20.5%
ROIC	4.2%	4.2%	3.5%	4.3%	3.5%	9.2%	3.3%	-0.2%	-1.3%	5.7%
Shares Out.	51.4	53.3	53.0	53.5	53.5	53.0	53.1	53.3	52.4	54.0
Revenue/Share	123.31	123.28	125.17	123.39	126.65	137.40	159.67	170.51	160.81	180.59
FCF/Share	(19.69)	(16.72)	(16.52)	(23.02)	(5.70)	(4.38)	(25.28)	(30.46)	19.76	4.37

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