United Parcel Service Inc. (UPS)

Updated May 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$178	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$157 B
Fair Value Price:	$217	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	05/21/22
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.0%	**Dividend Payment Date[1]:**	06/09/22
Dividend Yield:	3.4%	**5 Year Price Target**	$277	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

United Parcel Service, founded in 1907 and headquartered in Atlanta, GA, is a logistics and package delivery company that offers services including transportation, distribution, ground freight, ocean freight, insurance, and financing. Its operations are split into three segments: US Domestic Package, International Package, and Supply Chain & Freight. UPS trades with a market capitalization of $157 billion.

On April 26th, 2022, UPS reported first quarter 2022 results for the period ending March 31st, 2022. For the quarter the company generated revenue of $24.4 billion, a 6.4% increase compared to Q1 2021. The U.S. Domestic segment (making up 62% of sales) saw an 8.0% gain, while the International and Supply Chain & Freight segments posted gains of 5.8% and 2.0% respectively. Adjusted net income equaled $3.05 per share.

During the quarter, UPS increased its quarterly dividend 49.0% to $1.52.

UPS also reaffirmed its 2022 outlook, anticipating revenue of about $102 billion, a 13.7% operating margin, $5.5 billion in capital expenditures, and about $5.2 billion in dividend payments. Additionally, UPS announced it expects to double the amount of share repurchases in 2022, from previous guidance of $1 billion to $2 billion in share repurchases.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.53	$4.61	$4.75	$5.43	$5.75	$6.01	$7.24	$7.53	$8.23	$12.13	***$12.75***	***$16.27***
DPS	$2.28	$2.48	$2.68	$2.92	$3.12	$3.32	$3.64	$3.84	$4.04	$4.08	***$6.08***	***$7.76***
Shares[2]	953	924	905	886	868	859	858	857	871	878	***875.0***	***860.0***

During the last financial crisis, UPS' profitability declined substantially. Earnings-per-share dropped from $4.11 in 2007 to $2.31 in 2009. Since then, profits had risen relatively consistently. When we look at the 2007-2020 timeframe, earnings-per-share grew by 5.5% annually. The growth for 2010-2020 was 8.7% per annum. However, profit growth during 2018 was higher than in recent years, which is due to the positive one-time impact of a tax rate decline due to tax legislation changes in late 2017. Moreover, 2021 results were exceptional.

UPS has been experiencing a number of benefits in recent years. One such tailwind is e-commerce, which leads to growth in the number of packages that must be transported across the country. A strong economy drives demand for UPS' services by businesses as well as by consumers, which increase their spending due to higher disposable incomes. With online shopping growth continuing to outpace brick-and-mortar growth for the foreseeable future, UPS should continue to benefit from strong demand for its services.

Results were impressive in 2020, despite the ongoing COVID-19 pandemic, and outright impressive in 2021. Moreover, the long-term tailwinds are very much intact. Indeed, this crisis has sped up the trend of online shopping. We are forecasting $12.75 in earnings-per-share for 2022 to go along with a 5% annual growth rate.

[1] Estimate

[2] In millions.

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	2022	2027
Avg. P/E	16.7	19.3	21.2	18.5	18.4	18.6	15.6	14.7	15.8	15.5	***14.0***	***17.0***
Avg. Yld.	3.0%	2.8%	2.7%	2.9%	2.9%	3.0%	3.2%	3.5%	3.1%	2.2%	***3.4%***	***2.8%***

Over the past decade shares of UPS have traded with an average P/E ratio about 17 earnings. While we believe a moderate premium is warranted for the quality of the business, we are comfortable with 17 times earnings as a fair value baseline. With shares trading at 14 times our earnings estimate, this implies a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50%	54%	56%	54%	54%	55%	50%	51%	49%	34%	***48%***	***48%***

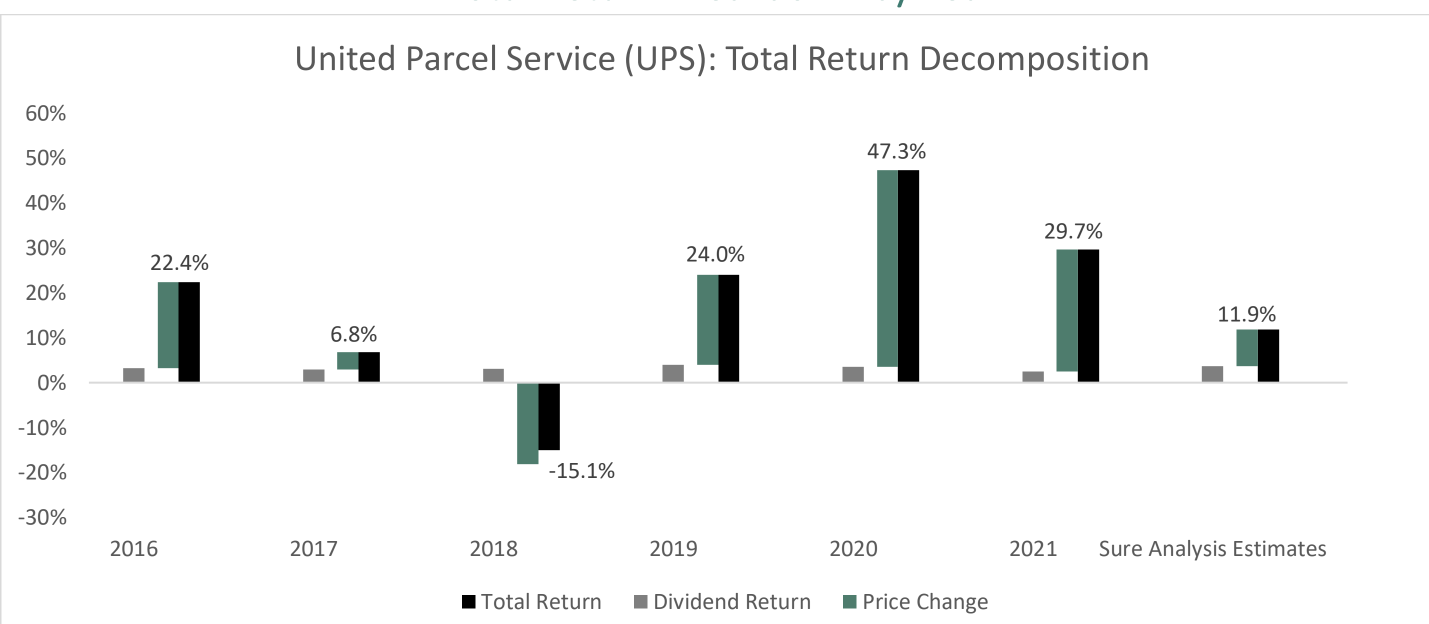
United Parcel Service did not cut its dividend during the last financial crisis, but its payout ratio rose to a relatively high level due to the decline in the company's net profits. Since then, the payout ratio has stabilized around 50%, which appears highly sustainable. We believe that a dividend cut is unlikely, although not impossible during a steep recession.

UPS is the largest logistics/package delivery company in the US. Its top peers include FedEx, DHL Express, and the United States Postal Service. The long-term macro environment is beneficial for the whole industry, thanks to the megatrend of online shopping. None of the big players have an interest in a price war, so volumes could continue to rise even if base pricing is increased over time. Competitive pressures should therefore remain muted for the foreseeable future. UPS was impacted significantly during the last financial crisis, which should be monitored this time around as well.

Final Thoughts & Recommendation

Shares are down 16% in the last one year period. United Parcel Service is one of the key companies in an industry that benefits from the online shopping megatrend. It seems likely that UPS will be able to grow its earnings-per-share at a solid pace over the intermediate term. Total return potential comes in at 11.9% per annum, consisting of 5% growth, a 3.4% dividend yield, and a valuation tailwind. Shares earn a buy 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	54127	55438	58232	58363	61610	66585	71861	74094	84630	97287
Gross Profit	6495	12261	10550	13326	13344	13739	13851	13717	15280	20581
Gross Margin	12.0%	22.1%	18.1%	22.8%	21.7%	20.6%	19.3%	18.5%	18.1%	21.2%
D&A Exp.	1858	1867	1923	2084	2224	2282	2207	---	2698	2953
Operating Profit	1343	7034	4968	7668	7688	7529	7024	7798	7684	12810
Op. Margin	2.5%	12.7%	8.5%	13.1%	12.5%	11.3%	9.8%	10.5%	9.1%	13.2%
Net Profit	807	4372	3032	4844	3422	4905	4791	4440	1343	12890
Net Margin	1.5%	7.9%	5.2%	8.3%	5.6%	7.4%	6.7%	6.0%	1.6%	13.2%
Free Cash Flow	5063	5239	3398	5051	3508	-3748	6428	8639	5047	10813
Income Tax	167	2302	1605	2498	1699	2232	1228	1212	501	3705

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	38863	36212	35440	38311	40377	45574	50016	57857	62410	69405
Cash & Equivalents	7327	4665	2291	2730	3476	3320	4225	5238	5910	10255
Acc. Receivable	6111	6502	6661	7134	7695	8773	8958	---	10750	12541
Inventories	393	403	344	308	342	404	421	---	620	717
Goodwill & Int.	2776	2965	3031	4968	5515	5836	5887	---	5641	6178
Total Liabilities	34130	29724	33282	35820	39948	44550	46979	54574	61740	55136
Accounts Payable	2278	2478	2754	2587	3042	3934	5188	---	6455	7523
Long-Term Debt	12870	10872	10779	14334	16075	24289	22202	21818	24650	21915
Total Equity	4653	6474	2141	2470	405	994	3021	3283	657	14253
LTD/E Ratio	2.77	1.68	5.03	5.80	39.69	24.44	7.35	6.65	37.53	1.54

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.2%	11.6%	8.5%	13.1%	8.7%	11.4%	10.0%	8.2%	2.2%	19.6%
Return on Equity	13.8%	78.6%	70.4%	210%	238%	701%	239%	141%	65.5%	172.9%
ROIC	4.5%	25.0%	20.0%	32.6%	20.5%	23.5%	19.0%	17.6%	5.0%	41.9%
Shares Out.	953	924	905	886	868	859	850	---	871	878
Revenue/Share	55.86	58.48	63.02	64.42	69.46	76.10	82.60	85.26	97.16	110.81
FCF/Share	5.23	5.53	3.68	5.58	3.95	-4.28	7.39	9.94	5.79	12.32

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