Expeditors International of Washingtion Inc. (EXPD)

Updated August 20th, 2022 by Felix Martinez

Key Metrics

Current Price:	$107	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$17.54 B
Fair Value Price:	$147	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/30/22[1]
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.5%	**Dividend Payment Date:**	12/15/22
Dividend Yield:	1.2%	**5 Year Price Target**	$162	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Expeditors is a global logistics company headquartered in Seattle, Washington. The company was founded in 1979 as a single-office ocean forwarder in Seattle. The company was publicly traded by 1984. Expeditors' services include the consolidation or forwarding of air and ocean freight, customs brokerage, vendor consolidation, cargo insurance, time-definite transportation services, order management, warehousing and distribution, and customized logistics solutions. Currently, the company has over 250 locations and ~17,500 employees worldwide. In 2021, the company reported $16.5 billion in revenue. The company has a market capitalization of $17.54 Billion, and the company has been growing its dividend for 27 consecutive years. The company is also part of the exclusive Dividend Aristocrats list, which has increased its dividends for 25 years or more.

On August 2, 2022, EXPD reported second-quarter and six months results for Fiscal Year (FY)2022. The company had another outstanding quarter. All products performed well for the quarter. This was the strongest second quarter in the company's history, even while its air and ocean volumes were soft compared to a year ago. Revenues saw a significant increase of 28%, from $3.6 billion in 1Q21 to $4.6 billion for 2Q22. Airfreight tonnage volume and ocean container volume decreased 17% and 11%, respectively. Net income was up as well. EXPD reported a $3478 million net income for the quarter, up 19% compared to 2Q21. The air market continues to see a considerable increase in air capacity because the demand for shipping technology-related equipment, medical equipment, supplies, and other priority goods has increased substantially. Operating income also increased from $411 million to $506 million for the quarter, or up 23%. Diluted Net Earnings per share (EPS) increased by 22% to $2.27 per share from $1.84 per share in last year's second quarter.

Consensus estimates that the company will earn $8.17 per share for 2022, which is (1.2)% lower than what the company made in FY2021. Thus, we will use $8.17 EPS as our valuation calculation.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.57	$1.68	$1.92	$2.40	$2.36	$2.69	$3.48	$3.39	$4.07	$8.27	***$8.17***	***$9.02***
DPS	$0.56	$0.60	$0.64	$0.72	$0.80	$0.84	$0.90	$1.00	$1.04	$1.16	***$1.34***	***$1.63***
Shares[2]	212.0	207.0	197.0	190.0	182.0	182.0	178.0	174.0	171.0	169.0	***169.0***	***169.0***

Over the past ten years, the company has seen earnings grow at a compound annual growth rate (CAGR) of 20.3%. It has increased slightly more to 24.2% CAGR for the past five years. However, we see the economy slowing down; therefore, we expect the growth rate to slow down to about 2% for the foreseeable future. Net margin has expanded slightly from 7.2% in FY2019 to 7.3% in FY2021. This will help with to continue profit growth. EXPD has grown its dividend for 27 consecutive years, with a 10-year dividend growth rate of 8.4% and a five-year growth rate of 9.8%. EXPD increased its dividend by 15.5%, from $0.58 per share to $0.67. The dividend increase was announced on May 4, 2022. We estimate future dividend growth to be 4% because of the earnings slow down. The company pays out dividends semi-annually.

[1] Ex-Dividend and Dividend Payment dates are estimates.

[2] Shares count 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	Now	2027
Avg. P/E	25.2	24.3	22.1	19.7	20.9	23	20	23	23.4	16.2	***13.1***	***18.0***
Avg. Yld.	1.4%	1.5%	1.5%	1.5%	1.6%	1.5%	1.3%	1.3%	1.1%	0.9%	***1.2%***	***1.0%***

EPXD shares have always demanded a high P/E multiple, averaging 21.8 for the past ten years. However, we will use a PE of 18.0 for our fair value estimate due to the slower growth expected. The company has a current PE of 13.1x, which is based on our FY 2022 EPS estimate of $8.17. This is lower than its own 5-year average PE of 22.1. Thus, EXPD looks to be undervalued at the current price. The current dividend yield of 1.2% is lower than the past 10-year dividend yield average of 1.4%. While the dividend yield is not spectacular, it is very well covered with a payout ratio of 16% and the tendency to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35.7%	35.7%	33.3%	30.0%	33.9%	31.2%	25.9%	29.5%	25.6%	14.0%	***16%***	***18%***

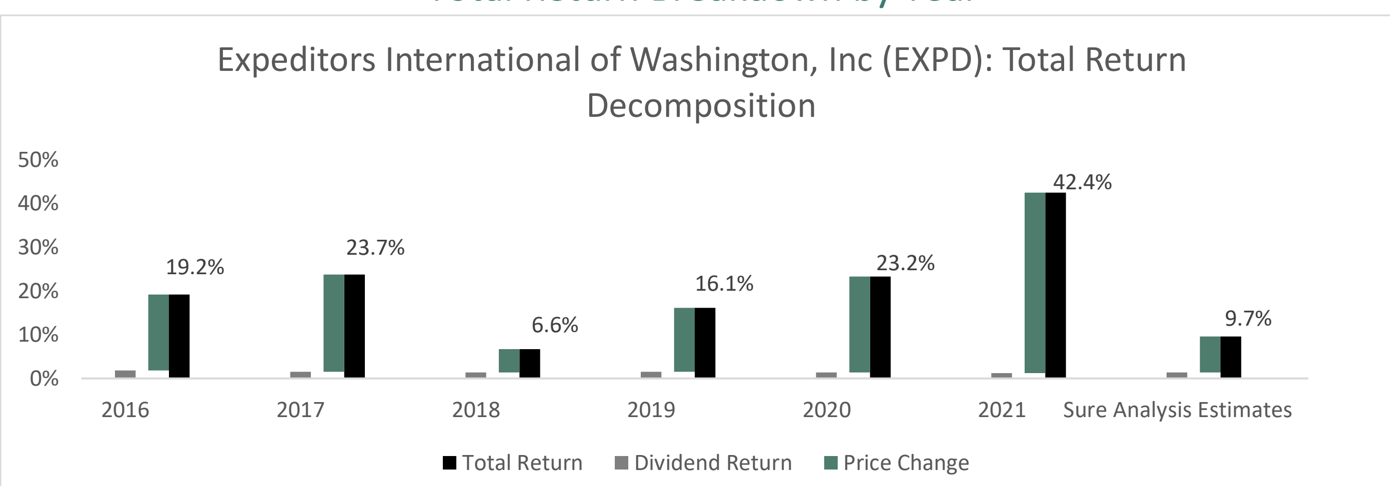
Expeditor's competitive advantage is the global footprint and an extensive network of shippers and carriers, which produce a substantial value that would be challenging to replicate for new entrants.

During the Great Recession, EXPD decreased by 19% in earnings from $1.37 in 2008 to $1.11 in 2009. However, EPS bounced right back up to $1.59 in 2010. The company also grew its dividend during that period. There have been times when EPS came in lower than the previous year, like in 2012, 2016, and 2019. However, Expeditors adjusted and continued to grow earnings. EXPD has a strong balance sheet with a debt-to-equity ratio of only 0.1, lower than the 0.2 debt-to-equity ratio that the company reported for the last year. The dividend is very safe; the dividend payout ratio has not passed 36% for the past ten years. Using Free Cash Flow, the company has a dividend payout of only 16%, which means that the dividend is very well covered with Free Cash Flow.

Final Thoughts & Recommendation

Expeditor has a long history of growing earnings and dividends. The company is expected to continue to grow its earnings for the foreseeable future and its dividend. We expect good total returns of 9.7% at the current valuation. However, since it is under our buy criteria of 10% or higher, we rate EXPD as a Hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	$5,992	$6,080	$6,565	$6,617	$6,098	$6,921	$8,138	$8,175	$10,116	$16,524
Gross Profit	$702	$704	$764	$896	$851	$883	$1,020	$997	$1,163	$2,165
Gross Margin	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%	11.5%	13.1%
SG&A Exp.	$34	$33	$38	$42	$42	$44	$45	$44	$18	$16
D&A Exp.	$40	$48	$49	$46	$47	$49	$54	$51	$57	$51
Operating Profit	$531	$552	$595	$721	$670	$700	$797	$767	$940	$1,909
Operating Margin	8.9%	9.1%	9.1%	10.9%	11.0%	10.1%	9.8%	9.4%	9.3%	11.6%
Net Profit	$333	$349	$377	$457	$431	$489	$618	$590	$696	$1,415
Net Margin	5.6%	5.7%	5.7%	6.9%	7.1%	7.1%	7.6%	7.2%	6.9%	8.6%
Free Cash Flow	$323	$354	$330	$522	$470	$394	$525	$725	$607	$832
Income Tax	$217	$223	$231	$277	$254	$228	$199	$204	$258	$506

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	$2,954	$3,015	$2,891	$2,566	$2,791	$3,117	$3,315	$3,692	$4,928	$7,610
Cash & Equivalents	$1,261	$1,248	$927	$808	$974	$1,051	$924	$1,230	$1,528	$1,729
Accounts Receivable	$1,031	$1,074	$1,236	$1,112	$1,190	$1,415	$1,582	$1,315	$1,998	$3,810
Goodwill & Int. Ass.	$8	$8	$8	$8	$8	$8	$8	$8	$8	$8
Total Liabilities	$922	$928	$1,019	$871	$944	$1,123	$1,327	$1,495	$2,264	$4,112
Accounts Payable	$642	$648	$770	$645	$727	$866	$902	$736	$1,137	$2,012
Long-Term Debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Shareholder's Equity	$2,028	$2,085	$1,868	$1,692	$1,845	$1,992	$1,987	$2,195	$26,60	$3,494

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.5%	11.7%	12.8%	16.8%	16.1%	16.6%	19.2%	16.9%	16.2%	22.6%
Return on Equity	16.5%	16.9%	19.1%	25.7%	24.4%	25.5%	31.1%	28.2%	28.7%	46.0%
ROIC	16.5%	16.9%	19.0%	25.6%	24.3%	25.5%	31.0%	28.2%	28.6%	45.9%
Shares Out.	211.9	206.9	196.8	190.2	182.7	181.7	177.8	174.0	171.0	169.0
Revenue/Share	$28.27	$29.39	$33.36	$34.78	$33.38	$38.10	$45.76	$46.93	$59.20	96.49
FCF/Share	$1.52	$1.71	$1.68	$2.75	$2.57	$2.17	$2.95	$4.16	$3.55	4.86

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