Ryder System, Inc. (R)

Updated August 24th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$4.1 B
Fair Value Price:	$180	**5 Year Growth Estimate:**	-8.0%	**Ex-Dividend Date:**	8/19/22
% Fair Value:	45%	**5 Year Valuation Multiple Estimate:**	17.3%	**Dividend Payment Date**	9/16/22
Dividend Yield:	3.1%	**5 Year Price Target**	$119	**Years Of Dividend Growth:**	18
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 $4.1 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, 2022, Ryder raised its quarterly dividend by 7%, thus extending its dividend growth streak to 18 years.

In late July, Ryder reported (7/27/22) financial results for the second quarter of fiscal 2022. It grew its operating revenue 20% over last year's quarter thanks to strong growth in all the divisions. Adjusted earnings-per-share nearly doubled, from $2.40 to an all-time high of $4.43, mostly thanks to strong rental and supply chain solutions. Ryder has executed material price hikes to offset high labor cost inflation and thus it expects to maintain its strong momentum in the second half of 2022. It also raised its guidance for its adjusted earnings-per-share in 2022 from $13.00- $14.00 to $14.30-$14.80. We have raised our forecast from $14.00 to $15.00, above the guidance of Ryder, given its tendency to issue cautious guidance and given that Ryder has exceeded the analysts' consensus by a wide margin for six quarters in a row.

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	***$15.00***	***$9.89***
DPS	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	$2.12	$2.20	$2.24	$2.28	***$2.48***	***$2.84***
Shares[1]	51.4	53.3	53.0	53.5	53.5	53.0	53.1	53.3	52.4	54.0	***49.0***	***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, the company incurred losses in 2020 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 7.2% average annual rate.

We are now forecasting earnings-per-share of $15.00 in 2022, above 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 an -8.0% average annual decrease in earnings-per-share over the next five years.

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[1] 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	***5.4***	***12.0***
Avg. Yld.	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	5.6%	2.9%	***3.1%***	***2.4%***

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. We are using 12 times earnings as a fair value multiple. The stock is currently trading at a price-to-earnings ratio of only 5.4, mostly due to the blowout earnings expected this year. If it reaches our fair valuation level in five years, it will enjoy a 17.3% 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%***	***29%***

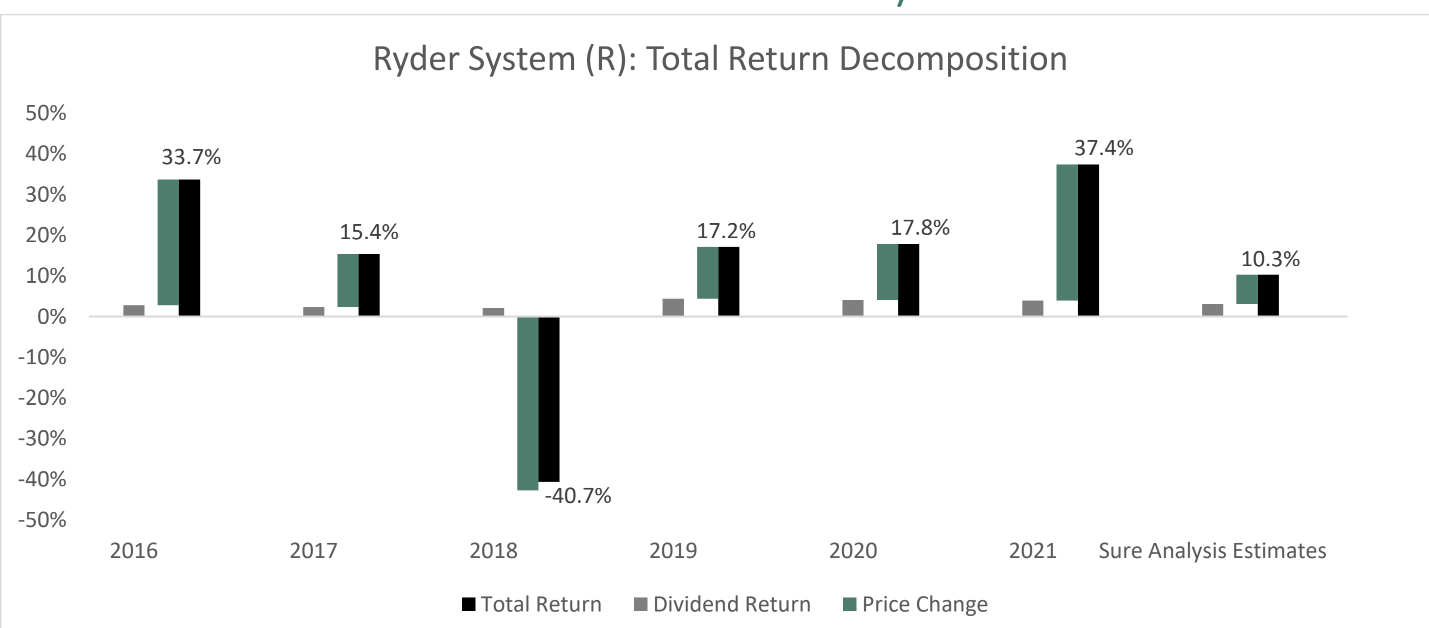
There have been three instances – 2008-09, 2015-17 and 2018-19 – in which Ryder reported a material decline in earnings-per-share (-65%, -26% and -83%, respectively). Moreover, the company incurred losses in 2020. While this is natural in a cyclical industry, we are encouraged by Ryder's ability to rebound. 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 rallied 14% since our last research report, in May. Nevertheless, it could still offer an average annual return of 10.3% over the next five years thanks to a 3.1% dividend yield and a 17.3% valuation tailwind, partly offset by an -8.0% annual decrease in earnings-per-share. The stock marginally maintains its 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
Revenue	6257	6419	6639	6572	6758	7297	8409	8926	8420
Gross Profit	1249	1320	1386	1485	1501	1464	1582	1371	1275
Gross Margin	20.0%	20.6%	20.9%	22.6%	22.2%	20.1%	18.8%	---	15.1%
SG&A Exp.	764	791	914	823	804	871	855	907	933
D&A Exp.	989	1040	1094	1175	1226	1264	1426	---	2143
Operating Profit	351	397	356	546	584	477	601	341	219
Operating Margin	5.6%	6.2%	5.4%	8.3%	8.6%	6.5%	7.2%	---	2.6%
Net Profit	210	238	218	305	263	792	273	-24	-122
Net Margin	3.4%	3.7%	3.3%	4.6%	3.9%	10.9%	3.2%	---	---
Free Cash Flow	-999	-871	-876	-1226	-304	-312	-1415	---	1035
Income Tax	102	126	118	163	142	-478	98	-19	-18

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	8319	9104	9851	10953	10902	11464	13051	14475	12930
Cash & Equivalents	66	62	50	61	59	78	68	74	151
Accounts Receivable	747	760	779	799	816	981	1171	---	1052
Inventories	64	64	66	64	70	74	79	---	61
Goodwill & Int. Ass.	465	456	460	444	435	438	534	---	518
Total Liabilities	6851	7207	8032	8965	8850	8622	10141	11999	10680
Accounts Payable	399	475	561	502	445	599	732	---	547
Long-Term Debt	3821	4189	4731	5503	5391	5410	6624	7925	6610
Shareholder's Equity	1467	1897	1819	1987	2052	2842	2910	2476	2256
D/E Ratio	2.60	2.21	2.60	2.77	2.63	1.90	2.28	3.2	2.93

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.6%	2.7%	2.3%	2.9%	2.4%	7.1%	2.2%	-0.2%	-0.9%
Return on Equity	15.1%	14.1%	11.8%	16.0%	13.0%	32.4%	9.5%	-0.9%	-5.2%
ROIC	4.2%	4.2%	3.5%	4.3%	3.5%	10.1%	3.1%	-0.2%	-1.3%
Shares Out.	51.4	53.3	53.0	53.5	53.5	53.0	53.1	52.3	52.4
Revenue/Share	123.31	123.28	125.17	123.39	126.65	137.71	159.58	167.49	160.81
FCF/Share	-19.69	-16.72	-16.52	-23.02	-5.70	-5.90	-26.86	---	19.76

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