FedEx Corporation (FDX)

Updated December 21st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$170	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$44.4 B
Fair Value Price:	$189	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/09/22
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	01/03/23
Dividend Yield:	2.7%	**5 Year Price Target**	$253	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971. The company offers a variety of services including transportation, e-commerce, and business services. It operates four core segments: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx provides domestic and international shipping for package delivery and freight. It also provides sales, marketing, information technology, communications, customer service, technical support, billing, and collection services.

On December 20th, 2022, FedEx reported its fiscal Q2 results for the period ending November 30th, 2022. For the quarter, revenues fell 2.9% to $22.8 billion against the prior-year period. While FedEx recorded higher package yields, package volumes declined from last year's pandemic-driven, inflated levels.

FedEx Ground's operating results were mainly impacted by higher operating expenses, primarily due to increased purchased transportation costs. The company again managed to increase the segment's operating income by 24%, driven by higher pricing and a reduction in other costs nonetheless. However, FedEx Express' operating income fell 64% due to lower global package and freight volumes, which more than counterbalanced the 8% increase in package yield.

Consequently, adjusted earnings-per-share came in at $3.18 compared to $4.83 in the prior-year period. The company now expects adjusted earnings-per-share for fiscal 2023 to be between $13.00 and $14.00. We have employed the midpoint of this range in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$8.61	$7.56	$3.70	$6.59	$11.25	$17.10	$2.06	$4.92	$19.45	$14.33	***$13.50***	***$18.07***
DPS	$0.57	$0.65	$0.85	$1.15	$1.70	$2.15	$2.60	$2.60	$2.60	$3.00	***$4.60***	***$6.16***
Shares[1]	317	310	287	279	270	272	265	262	268	266	***256***	***248***

FedEx is likely to continue facing strong profitability headwinds during the current, highly inflationary, and unstable environment. The company's business model is cyclical, and thus lower shipment volumes combined with higher expenses can have a violent impact on its margins. Still, over the long run, the company should continue to dominate and expand its footprint in the logistics industry while achieving operational efficiencies due to its massive possible scalability. We have seen this multiple times over the years, with FedEx coming out of recessions quite stronger than before. In terms of the dividend, management has been prudent with hikes, always making sure that it retains a considerable margin of safety before a potential increase. Amid increased affordability, the latest increase by 53.5% reflected this strategy. This way, FedEx can still keep paying shareholders and avoid potential dividend cuts, which have not occurred since its first dividend was paid back in 2002. While the current trading environment is not favorable, we retain both our EPS and DPS CAGR expectations at 6% due a potential recover in the coming years and FedEx's cost-reductions initiatives. Finally, FedEx has been executing a high amount of buybacks, having retired around 19% of its shares over the past decade.

[1] 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.

FedEx Corporation (FDX)

Updated December 21st, 2022 by Nikolaos Sismanis

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13	15	18.5	18.4	14.4	14.6	15.2	13.5	14.4	17.0	***12.6***	***14.0***
Avg. Yld.	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	0.9%	***2.7%***	***2.4%***

Because of its sensitivity to economic growth (and decline), FedEx has historically traded with relatively sensible valuation multiples in the mid-teens. Shares are currently trading at a P/E of 12.6, which is below its decade average P/E of 15.4. While the lower multiple is not unreasonable in the current market environment, we believe that it can gradually normalize over the medium-term, assuming of course economic conditions improve in the coming years. We have thus set our fair P/E at 14, which is still lower compared to its historical average. Following the stock's steep decline over the past year, its yield is now standing at 2.7%, way above its historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

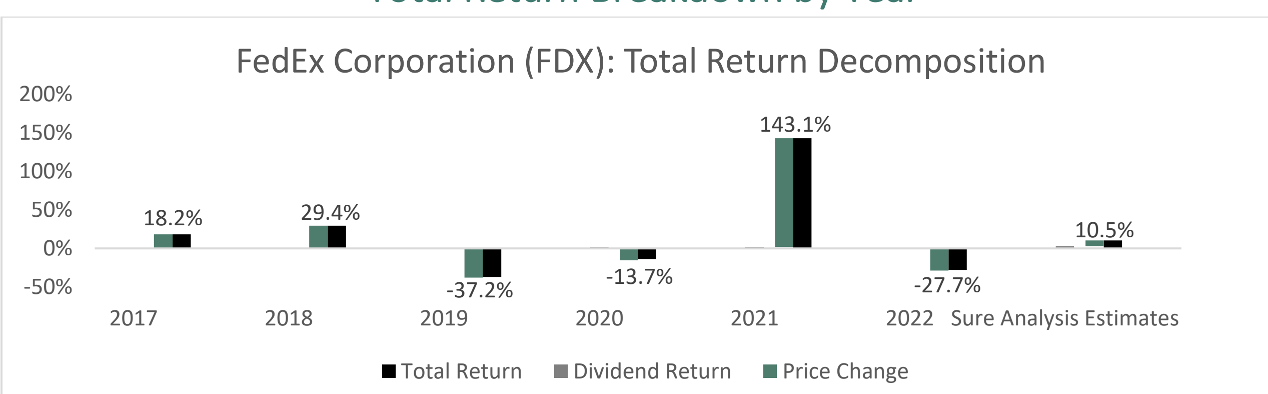
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	7%	9%	23%	17%	15%	13%	126%	53%	13%	21%	***34%***	***34%***

FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is high, at 8.7 times the company's operating cash flows, and the dividend payout ratio is low, at 34%, despite the recent compression in earnings. Considering the sector's duopolistic nature, with FedEx and UPS being essentially the only market participants, the company enjoys a strong moat and the potential to achieve massive economies of scale. During the past couple of years, the company has demonstrated how its logistics expertise and massive network make it essentially the most reliable transportation provider in the world, executing its deliveries with great consistency. This should be proven to an accolade in the future, as its reputation was forged with much positivity for customers and investors alike, during this period. Further, while FedEx has been thought to be a recession-vulnerable business, COVID-19 highlighted how essential its operations are. The dividend is unlikely to be cut even in a severe scenario, thanks to its low payout ratio.

Final Thoughts & Recommendation

FedEx's performance is likely to remain suppressed for as long as the current macroeconomic turmoil persists. Nevertheless, we believe that the stock continues to present an attractive opportunity for investors over a five-year horizon. Our growth forecasts point towards annualized medium-term returns of 10.5%, powered by modest growth expectations, the stock's dividend yield, and the potential for a notable valuation expansion. FedEx earns a buy rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

FedEx Corporation (FDX)

Updated December 21st, 2022 by Nikolaos Sismanis

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	44287	45567	47453	50365	60319	65450	69693	69217	83960	93510
Gross Profit	9398	9757	10748	11826	13318	14102	14827	13344	17950	20170
Gross Margin	21.2%	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%	21.4%	21.6%
SG&A Exp.	1368	15	2190	1498	---	---	---	---	---	---
D&A Exp.	2386	2587	2611	2631	2995	3095	3353	3615	3793	3970
Operating Profit	5094	3815	2143	3077	4566	4652	4786	2852	5973	6523
Operating Margin	11.5%	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%	7.1%	7.0%
Net Profit	2716	2324	1050	1820	2997	4572	540	1286	5231	3826
Net Margin	6.1%	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.2%	4.1%
Free Cash Flow	1313	731	1019	890	-186	-989	123	-771	4251	3069
Income Tax	1622	1334	577	920	1582	-219	115	383	1443	1070

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	33567	33070	36531	45959	48552	52330	54403	73537	82780	85990
Cash & Equivalents	4917	2908	3763	3534	3969	3265	2319	4881	7087	6897
Accounts Receivable	5044	5460	5719	7252	7599	8481	9116	10102	12070	11860
Inventories	457	463	498	496	514	525	553	572	587	637
Goodwill & Int. Ass.	2755	2790	4017	7755	7683	7453	7300	6372	7344	6544
Total Liabilities	16169	17793	21538	32175	32479	32914	36646	55242	58610	61060
Accounts Payable	1879	1971	2066	2944	2752	2977	3030	3269	3840	4030
Long-Term Debt	2990	4737	7268	13762	14931	16585	17581	22003	20350	20260
Shareholder's Equity	17398	15277	14993	13784	16073	19416	17757	18295	24170	24940
LTD/E Ratio	0.17	0.31	0.48	1.00	0.93	0.85	0.99	1.20	0.84	0.81

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.6%	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%	6.7%	4.5%
Return on Equity	16.9%	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%	24.6%	15.6%
ROIC	14.8%	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%	12.4%	8.5%
Shares Out.	318.0	287.0	282.4	265.5	268.3	272.0	260.9	262.45	264	267
Revenue/Share	139.71	146.99	165.34	180.52	223.40	240.63	262.99	263.74	318.03	350.24
FCF/Share	4.14	2.36	3.55	3.19	-0.69	-3.64	0.46	-2.94	16.10	11.49

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