



Old Dominion Freight Line, Inc. (ODFL)

Updated February 2nd, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$368	5 Year CAGR Estimate:	7.2%	Market Cap:	\$40.6 B
Fair Value Price:	\$286	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	02/28/22
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date¹:	03/15/22
Dividend Yield:	0.4%	5 Year Price Target	\$504	Years Of Dividend Growth:	6
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Old Dominion Freight Line, Inc. (ODFL) is one of the largest less-than-truckload (LTL) carriers in North America. Based in Thomasville, NC, it has a market cap of \$40.6 billion; its 24,600 employees operate over 250 service centers in 48 states, 10,000 tractors (trucks), and 39,000 trailers. Founded in 1934, its largest competitor in the highly competitive LTL industry is JB Hunt Transport Services Inc.

The company began paying a dividend in 2017 and has raised its payout from \$0.27 to \$1.40 annually, including a 33.3% increase on February 1st, 2023. However, the dividend yield (currently 0.4%) has been relatively flat because the share price has also risen.

Along with the dividend increase on February 1st, 2023, the company reported its Q4 and full-year results for the quarter ending December 31st, 2022. Total revenue of \$1.49 billion was 5.8% higher than in Q4-2021, while diluted earnings per share grew 21.1%, from \$2.41 to \$2.92. These numbers were driven by 16.7% higher LTL (Less Than Truckload) revenue per hundredweight, which more than offset the 9.1% decrease in LTL tons.

With scaling economics, the company's margins improved, leading to substantially higher profits. The company also continued to operate with great efficiency during the quarter and maintained its disciplined control over discretionary spending. As a result, ODFL improved both its direct operating costs and total overhead costs as a percent of revenue during the quarter. ODFL's salaries, wages, and benefit costs as a percent of revenue improved to 44.0% from 46.9% last year. Its purchased transportation costs also improved by 200 basis points to 1.9% of revenue. These improvements more than offset the increase in operating supplies that primarily resulted from the significant increase in the cost of diesel fuel and other petroleum-based products during the quarter. Hence, the increased bottom line levels.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.59	\$2.07	\$2.38	\$2.37	\$2.91	\$4.92	\$5.11	\$5.68	\$8.89	\$12.18	\$13.00	\$22.91
DPS	---	---	---	---	\$0.27	\$0.35	\$0.45	\$0.60	\$0.80	\$1.20	\$1.60	\$4.88
Shares	129	129	127	124	124	122	120	117	116	111	111.0	107.0

The company expects continued growth along the lines of what it saw in 2022, with customer demand expected to be about the same. Much of its current momentum comes from e-commerce deliveries. Over the past five years, earnings-per-share has risen by an average of 21.4% per year. Earnings-per-share has been getting a boost from share buybacks since 2015, with the company spending \$1.3 billion on repurchases in 2022. From 2014 to Q4-2022, ODFL reduced its share count from 129 million to 111 million, a -13.9% reduction. We are forecasting \$13.00 in earnings-per-share for 2023 to go along with a 12% annual growth rate as the company continues to invest heavily in growing the business and cutting costs without sacrificing service quality.

Old Dominion's on-time service was sustained at 99% in 2022, while at the same time, its cargo claims ratio in Q4 was as low as 0.1%. On pricing, it takes a long-term approach aimed at offsetting cost inflation and new investments. As well as service centers and trucks, it invests in IT and employee wages/benefits (none of its employees are unionized).

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In the past five years, the dividend has increased by an average of 35.5% per year, including this year when it went up by 33.3% (from \$1.20 to \$1.40). We estimate slower but still significant average annual growth of 25%, as the company works toward a normalized payout ratio. At that rate, the 2028 dividend would amount to \$4.88, and the expected payout ratio would be 21%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2028
Avg. P/E	17.9	20.7	19.4	19.2	22.7	19.4	20.8	29.6	30.5	25.9	28.3	22.0
Avg. Yld.	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	1.0%

Old Dominion has traded with an average P/E ratio of about 23 times earnings over the last decade, which is what we are using for a fair value estimate. With shares presently trading hands at 28.3 times expected earnings, this implies the possibility for a strong valuation headwind ahead. While the dividend yield is quite low, it has the propensity to grow substantially over time. This is due to the potential for dividend growth to surpass earnings growth through 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	9%	7%	9%	11%	9%	10%	12%	21%

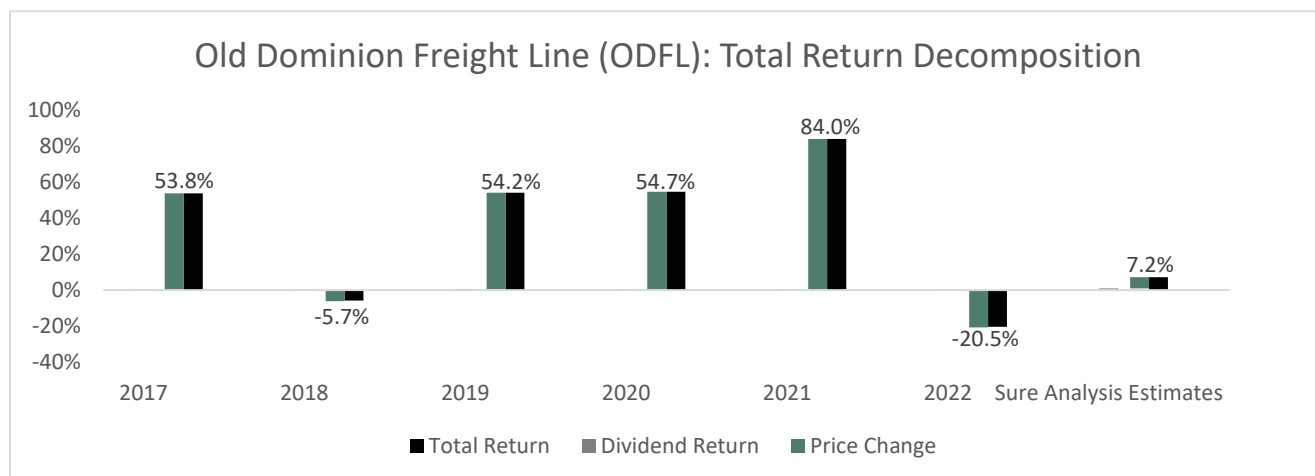
Old Dominion argues its competitive advantage lies in being able to deliver superior service at a fair price. The company is reasonably recession resistant. Despite the sharp economic downturn in 2020, its revenue was roughly flat, but its EPS and cash flow per share were up by high single digits. In the 2008 through 2010 period Old Dominion posted earnings-per-share of \$0.55, \$0.28, and \$0.60.

Debt is not a concern, as Old Dominion has only \$80 million in debt, none of which is due in the next five years. Long-term interest is about \$1 million per year, and the interest coverage ratio is incredibly high.

Final Thoughts & Recommendation

Due to both internal and external factors, Old Dominion is a powerful company and one of the leading LTL carriers in the U.S. Internally, it has invested in new growth, and externally, it has benefited from the e-commerce revolution. It is financially sound and profitable, throwing off cash flow that allows it to keep investing in the business and growing its dividend. Total expected returns come in at 7.2% per annum, driven by a 12% anticipated growth rate and 0.4% dividend yield, offset by the potential for a notable valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,338	2,788	2,972	2,992	3,358	4,044	4,109	4,015	5,256
Gross Profit	536	687	757	745	875	1,144	1,170	1,229	1,775
Gross Margin	22.9%	24.7%	25.5%	24.9%	26.1%	28.3%	28.5%	30.6%	33.8%
SG&A Exp.	124	145	154	152	177	194	206	184	224
D&A Exp.	127	146	165	190	206	230	254	261	260
Operating Profit	338	441	498	484	576	817	819	907	1,392
Op. Margin	14.5%	15.8%	16.8%	16.2%	17.1%	20.2%	19.9%	22.6%	26.5%
Net Profit	206	268	305	296	464	606	616	673	1,034
Net Margin	8.8%	9.6%	10.3%	9.9%	13.8%	15.0%	15.0%	16.8%	19.7%
Free Cash Flow	55	24	92	148	154	312	505	708	663
Income Tax	123	165	185	182	112	210	208	229	354

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,932	2,207	2,467	2,696	3,068	3,545	3,996	4,369	4,822
Cash & Equivalents	30	35	11	10	127	190	404	401	463
Acc. Receivable	248	303	311	320	394	428	398	445	567
Goodwill & Int.	19	19	19	19	19	19	---	---	---
Total Liabilities	700	713	782	845	792	865	915	1,043	1,142
Accounts Payable	37	45	67	89	74	79	70	69	83
Long-Term Debt	191	156	134	105	95	45	45	100	100
Total Equity	1,232	1,494	1,685	1,851	2,277	2,680	3,081	3,326	3,680
LTD/E Ratio	0.16	0.10	0.08	0.06	0.04	0.02	0.01	0.03	0.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.3%	12.9%	13.0%	11.5%	16.1%	18.3%	16.3%	16.1%	22.5%
Return on Equity	18.3%	19.6%	19.2%	16.7%	22.5%	24.4%	21.4%	21.0%	29.5%
ROIC	15.3%	17.4%	17.6%	15.7%	21.4%	23.8%	21.0%	20.5%	28.7%
Shares Out.	129	129	127	124	124	122	120	117	116
Revenue/Share	18.09	21.57	23.21	23.98	27.17	32.87	34.07	33.88	45.15
FCF/Share	0.43	0.19	0.72	1.18	1.25	2.53	4.18	5.97	5.69

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

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