



Ryder System, Inc. (R)

Updated February 21st, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$99	5 Year CAGR Estimate:	7.2%	Market Cap:	\$4.6 B
Fair Value Price:	\$140	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	2/17/23
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.2%	Dividend Payment Date:	3/17/23
Dividend Yield:	2.5%	5 Year Price Target:	\$127	Years Of Dividend Growth:	18
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

In 1933, Jim Ryder made a \$35 down payment on one truck. Today that has transformed into a \$4.6 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 \$12.0 billion in revenue last year.

In mid-February, Ryder reported (2/15/23) financial results for the fourth quarter of fiscal 2022. It grew its operating revenue 14% over the prior year's quarter thanks to growth in all business segments. Adjusted earnings-per-share grew 11%, from \$3.52 to \$3.89, and exceeded the analysts' consensus by \$0.40, primarily thanks to strong performance in Supply Chain Solutions and Dedicated Transportation, which more than offset high cost inflation and lower sales of used vehicles. However, due to business deceleration in used vehicle sales and rental, Ryder provided guidance for earnings-per-share of \$11.05-\$12.05 in 2023. Given the tendency of management to issue cautious guidance and given that Ryder has exceeded the analysts' consensus by a wide margin for eight quarters in a row, we expect earnings-per-share of \$11.70 this year, above the mid-point of the guidance of management.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.87	\$5.59	\$6.13	\$5.41	\$4.53	\$5.79	\$1.01	-\$0.27	\$9.58	\$16.37	\$11.70	\$10.58
DPS	\$1.30	\$1.42	\$1.56	\$1.70	\$1.80	\$2.12	\$2.20	\$2.24	\$2.28	\$2.40	\$2.48	\$2.84
Shares¹	53.3	53.0	53.5	53.5	53.0	53.1	53.3	52.4	54.0	49.3	47.0	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 7.1% 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 forecasting earnings-per-share of \$11.70 in 2023. This second-best level of earnings in the history of the company forms a high comparison base for future earnings and hence we expect a -2.0% average annual decrease in earnings-per-share over the next five years.

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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.5	15.1	13.7	12.1	16.6	12.2	---	---	8.1	4.8	8.5	12.0
Avg. Yld.	2.1%	1.7%	1.9%	2.6%	2.4%	3.0%	4.0%	5.6%	2.9%	3.1%	2.5%	2.2%

Excluding 2019 and 2020, shares of Ryder have traded hands with an average price-to-earnings ratio of 11.9, with a range from 4.8 to 16.6. We are using 12 times earnings as a fair value multiple. The stock is currently trading at a price-to-earnings ratio of only 8.5, mostly due to the high earnings expected this year. If Ryder reaches our fair valuation level in five years, it will enjoy a 7.2% annualized gain thanks to the expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	25%	25%	31%	40%	37%	---	---	24%	15%	21%	27%

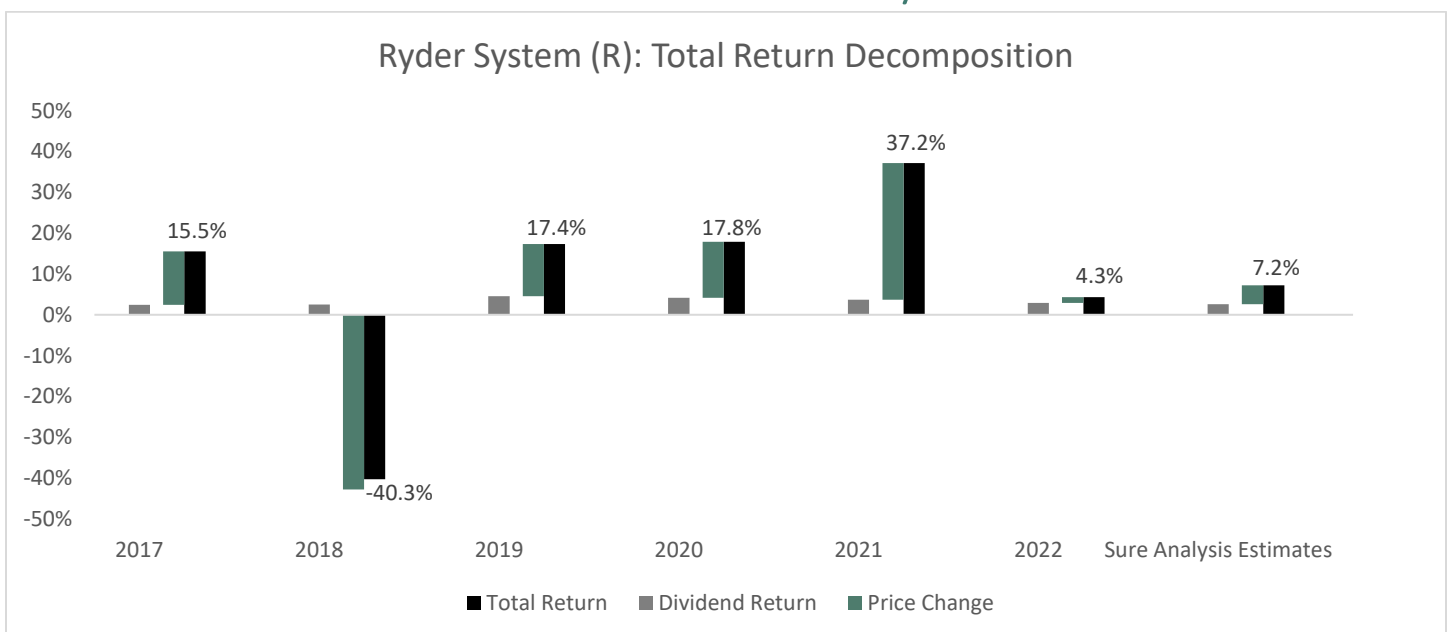
There have been three instances – 2008-09, 2015-17 and 2018-19 – in which Ryder reported a material decline in earnings-per-share (-65%, -26% and -83%, respectively). Moreover, the company incurred losses in 2020. While this is natural in a cyclical industry, we are encouraged by Ryder’s ability to rebound. 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

Ryder has outperformed the S&P 500 by a wide margin over the last 12 months (+25% vs. -7%). The stock could still offer an average annual return of 7.2% over the next five years thanks to a 2.5% dividend yield and a 7.2% valuation tailwind, partly offset by a -2.0% annual decrease in earnings-per-share. We lower our rating from “buy” to “hold”.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6419	6639	6572	6758	7297	8409	8926	8420	9663	12011
Gross Profit	1320	1386	1485	1501	1464	1582	1371	1275	1802	2390
Gross Margin	20.6%	20.9%	22.6%	22.2%	20.1%	18.8%	---	15.1%	18.6%	19.9%
SG&A Exp.	791	914	823	804	871	855	907	933	1187	1415
D&A Exp.	1040	1094	1175	1226	1264	1426	---	2143	1811	1831
Operating Profit	397	356	546	584	477	601	341	219	872	1425
Operating Margin	6.2%	5.4%	8.3%	8.6%	6.5%	7.2%	---	2.6%	9.0%	11.9%
Net Profit	238	218	305	263	792	273	-24	-122	519	867
Net Margin	3.7%	3.3%	4.6%	3.9%	10.9%	3.2%	---	---	5.4%	7.2%
Free Cash Flow	-871	-876	-1226	-304	-312	-1415	---	1035	234	-321
Income Tax	126	118	163	142	-478	98	-19	-18	171	353

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9104	9851	10953	10902	11464	13051	14475	12930	13835	14395
Cash & Equivalents	62	50	61	59	78	68	74	151	234	267
Accounts Receivable	760	779	799	816	981	1171	---	1052	1281	1476
Inventories	64	66	64	70	74	79	---	61	69	78
Goodwill & Int. Ass.	456	460	444	435	438	534	---	518	742	1156
Total Liabilities	7207	8032	8965	8850	8622	10141	11999	10680	11037	11458
Accounts Payable	475	561	502	445	599	732	---	547	748	767
Long-Term Debt	4189	4731	5503	5391	5410	6624	7925	6610	6580	6352
Shareholder's Equity	1897	1819	1987	2052	2842	2910	2476	2256	2798	2937
D/E Ratio	2.21	2.60	2.77	2.63	1.90	2.28	3.2	2.93	2.35	2.16

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	2.3%	2.9%	2.4%	7.1%	2.2%	-0.2%	-0.9%	3.9%	6.1%
Return on Equity	14.1%	11.8%	16.0%	13.0%	32.4%	9.5%	-0.9%	-5.2%	20.5%	30.2%
ROIC	4.2%	3.5%	4.3%	3.5%	10.1%	3.1%	-0.2%	-1.3%	5.7%	9.3%
Shares Out.	53.3	53.0	53.5	53.5	53.0	53.1	52.3	52.4	53.5	50.9
Revenue/Share	123.28	125.17	123.39	126.65	137.71	159.58	167.49	160.81	180.59	236.03
FCF/Share	-16.72	-16.52	-23.02	-5.70	-5.90	-26.86	---	19.76	4.37	-6.30

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

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