Old Dominion Freight Line, Inc. (ODFL)

Updated July 26th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	$418	**5 Year CAGR Estimate:**	1.2%	**Market Cap:**	$45.9 B
Fair Value Price:	$242	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	09/05/23
% Fair Value:	173%	**5 Year Valuation Multiple Estimate:**	-10.4%	**Dividend Payment Date:**	09/20/23
Dividend Yield:	0.4%	**5 Year Price Target**	$426	**Years Of Dividend Growth:**	6
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $45.9 billion; its nearly 22,500 employees operate over 250 service centers in 48 states, 11,200 tractors (trucks), and 45,000 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 constantly risen.

On July 26th, 2023, Old Dominion reported its Q2 results for the quarter ending June 30th, 2023. Total revenue of $1.41 billion was 15.2% lower than in Q2-2022, while diluted earnings per share also fell from $3.30 to $2.65. The decline was primarily due to a 14.1% decrease in LTL tons per day and a 1.1% decrease in LTL revenue per hundredweight. This "yield" metric was, in turn, negatively impacted by a significant decrease in the price of diesel fuel, as the company's LTL revenue per hundredweight, excluding fuel surcharges, rose by 7.6% during the quarter.

While the company continued to operate with great efficiency during the quarter and maintained its disciplined control over discretionary spending, the notable decline in sales naturally resulted in compressed margins. Specifically, ODFL's salaries, wages, and benefit costs as a percent of revenue rose from 42.3% last year to 45.5%. ODFL's general supply and expenses also climbed by 50 basis points to 2.8% of total revenues. Hence, the company's operating income margin fell 280 basis points to 27.7%. This was the main driver behind the EPS decline.

During the first half of the year, the company repurchased $302.2 million worth of stock. Along with its Q2 results, the company approved a new share repurchase program allowing the company to repurchase up to $3.0 billion of its stock. This new repurchase program will begin after the completion of the company's existing $2.0 billion repurchase program, which had $376.9 million remaining available.

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	***$11.00***	***$19.39***
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	***110***	***105***

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 33.2% per year. Earnings-per-share has also been getting a boost from share buybacks since 2015, with the company spending $1.3 billion on repurchases in 2022. From 2014 to Q2-2023, ODFL reduced its share count from 129 million to 110 million, a ~14.5% reduction. We are forecasting $11.00 in earnings-per-share for 2023 to go along with a 12% annual growth rate, expecting the company to continue to invest heavily in growing the business and cutting costs without sacrificing service quality.

On pricing, the company 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 and benefits (none of its employees are unionized).

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 25%.

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	***38.0***	***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%***	***1.1%***

Old Dominion has traded with an average P/E ratio of about 22-23 times earnings over the last decade, which is what we are using for a fair value estimate. With shares presently trading hands at 38 times expected earnings, this implies the possibility for a significant 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%	***15%***	***25%***

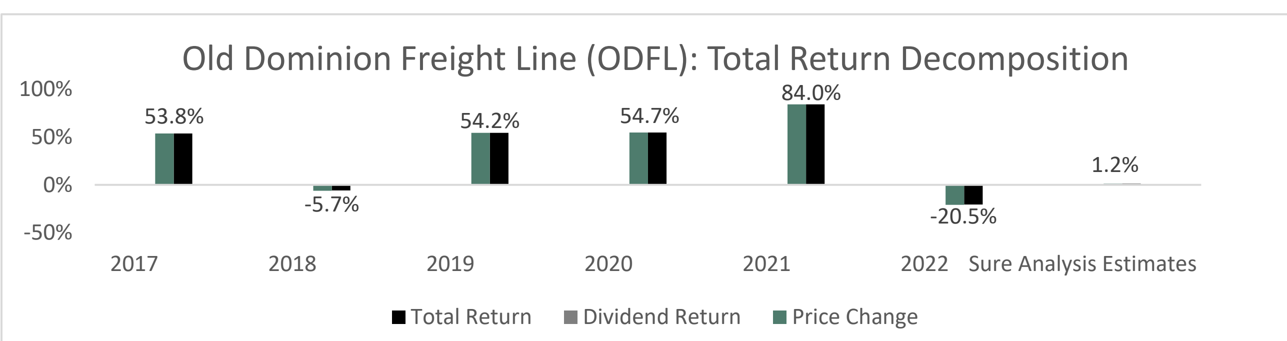
Old Dominion argues its competitive advantage lies in being able to deliver superior service at a fair price. The company is reasonably recession resistant. Despite the sharp economic downturn in 2020, its revenue was roughly flat, but its EPS and cash flow per share were up by high single digits. In 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 long-term 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. The company is financially sound and profitable, throwing off cash flow that allows it to keep investing in the business and growing its dividend. That said, total expected returns come in at just 1.2% per annum, as the 12% anticipated growth rate and 0.4% dividend yield could be largely offset by the potential for a 10.2% annual valuation headwind. Following the stock's massive rally since our previous buy-rated report, ODFL shares now earn a sell 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	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,788	2,972	2,992	3,358	4,044	4,109	4,015	5,256	6,260
Gross Profit	687	757	745	875	1,144	1,170	1,229	1,775	2,256
Gross Margin	24.7%	25.5%	24.9%	26.1%	28.3%	28.5%	30.6%	33.8%	36.0%
SG&A Exp.	145	154	152	177	194	206	184	224	259
D&A Exp.	146	165	190	206	230	254	261	260	276
Operating Profit	441	498	484	576	817	819	907	1,392	1,841
Op. Margin	15.8%	16.8%	16.2%	17.1%	20.2%	19.9%	22.6%	26.5%	29.4%
Net Profit	268	305	296	464	606	616	673	1,034	1,377
Net Margin	9.6%	10.3%	9.9%	13.8%	15.0%	15.0%	16.8%	19.7%	22.0%
Free Cash Flow	24	92	148	154	312	505	708	663	916
Income Tax	165	185	182	112	210	208	229	354	464

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,207	2,467	2,696	3,068	3,545	3,996	4,369	4,822	4,839
Cash & Equivalents	35	11	10	127	190	404	401	463	186
Acc. Receivable	303	311	320	394	428	398	445	567	579
Goodwill & Int.	19	19	19	19	19	---	---	---	---
Total Liabilities	713	782	845	792	865	915	1,043	1,142	1,186
Accounts Payable	45	67	89	74	79	70	69	83	106
Long-Term Debt	156	134	105	95	45	45	100	100	100
Total Equity	1,494	1,685	1,851	2,277	2,680	3,081	3,326	3,680	3,653
LTD/E Ratio	0.10	0.08	0.06	0.04	0.02	0.01	0.03	0.03	0.03

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.9%	13.0%	11.5%	16.1%	18.3%	16.3%	16.1%	22.5%	28.5%
Return on Equity	19.6%	19.2%	16.7%	22.5%	24.4%	21.4%	21.0%	29.5%	37.6%
ROIC	17.4%	17.6%	15.7%	21.4%	23.8%	21.0%	20.5%	28.7%	36.6%
Shares Out.	129	127	124	124	122	120	117	116	113
Revenue/Share	21.57	23.21	23.98	27.17	32.87	34.07	33.88	45.15	55.36
FCF/Share	0.19	0.72	1.18	1.25	2.53	4.18	5.97	5.69	8.10

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