



FedEx Corporation (FDX)

Updated September 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$227	5 Year CAGR Estimate:	11.2%	Market Cap:	\$65.6 B
Fair Value Price:	\$266	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/08/23
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	10/02/23
Dividend Yield:	2.2%	5 Year Price Target	\$356	Years Of Dividend Growth:	3
Dividend Risk Score:	C	Retirement Suitability Score:	C	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 September 20th, 2023, FedEx reported its fiscal Q1 results for the period ending August 31st, 2023. For the quarter, revenues fell 6.7% to \$21.7 billion against the prior-year period. Specifically, FedEx Express' revenues fell 9% due to lower fuel surcharges, lower volume, and unfavorable service mix. FedEx Freight revenue also fell 16%, primarily due to lower shipments and fuel surcharges, partially offset by base yield improvement. Results were offset by higher revenues in FedEx Ground.

That said, operating income improved by 25% to \$1.49 billion. This was due to the execution of the DRIVE program and FedEx's continued focus on revenue quality. Regarding the DRIVE program, it includes initiatives such as structural flight takedowns, aligning staffing with volume levels, increasing line haul and sort efficiency, temporarily parking aircraft, and other cost-cutting measures. Thus, adjusted EPS rose by 32.2% to \$4.55.

For fiscal 2024, management expects adjusted EPS to be between \$17.00 and \$18.50. This compares to adjusted EPS of \$16.50 to \$18.50 previously. We have employed the midpoint of this updated range in our estimates. All other figures in our tables reflect GAAP results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.56	\$3.70	\$6.59	\$11.25	\$17.10	\$2.06	\$4.92	\$19.45	\$14.33	\$15.48	\$17.75	\$23.75
DPS	\$0.65	\$0.85	\$1.15	\$1.70	\$2.15	\$2.60	\$2.60	\$2.60	\$3.00	\$4.60	\$5.04	\$6.74
Shares¹	310	287	279	270	272	265	262	268	266	256	247	230

FedEx is likely to continue facing profitability headwinds during the current highly inflationary and unstable market 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. 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. Following increased affordability by applying this strategy, the dividend has nearly doubled since 2019. While the current trading environment is unfavorable, we retain our EPS and DPS CAGR expectations at 6% due to a potential recovery in the

¹ In millions

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coming years and FedEx's cost-reduction initiatives. Finally, FedEx has been executing a high amount of buybacks, having retired around 21% of its shares over the past decade.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15	18.5	18.4	14.4	14.6	15.2	13.5	14.4	17.0	13.3	12.8	15.0
Avg. Yld.	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	0.9%	2.2%	2.2%	1.9%

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 12.8, which is notably lower than the decade-average P/E of 15.4. Given the company's optimistic guidance and cost-cutting measures, we believe the stock can sustain a higher multiple that is close to its historical average. We thus maintain our fair P/E at 15. Shares now yield 2.2%, which is above the company's historical average following its aggressive dividend hikes over the past three years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

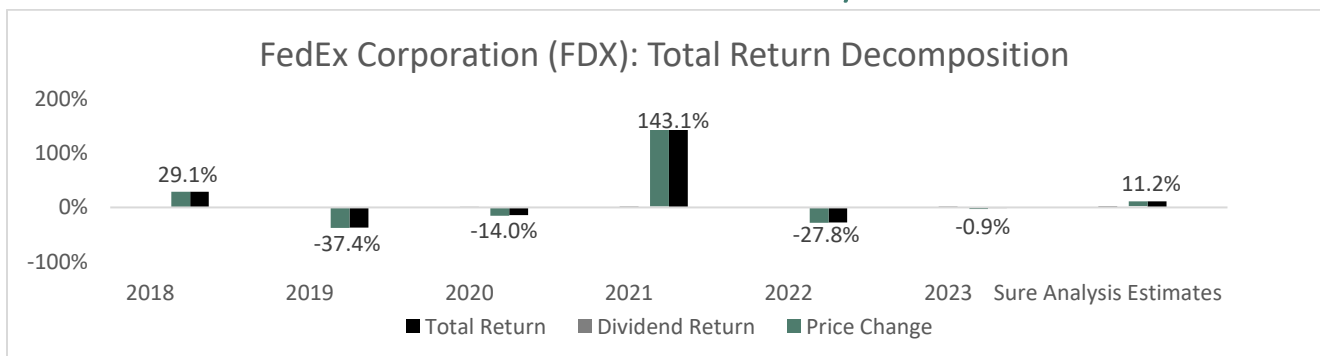
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	23%	17%	15%	13%	126%	53%	13%	21%	30%	28%	28%

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 12.8 times the company's operating cash flows, and the dividend payout ratio is low, at 28%, 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 revenues and operating income are likely to remain below their pandemic highs as long as the current macro turmoil persists. That said, improving economic conditions and cost management should keep driving earnings growth. Our growth forecasts point towards annualized medium-term returns of 11.2%, powered by our modest growth expectations, the stock's dividend yield, and the potential for a decent valuation tailwind. FedEx earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	45567	47453	50365	60319	65450	69693	69217	83960	93510	90160
Gross Profit	9757	10748	11826	13318	14102	14827	13344	17950	20170	19170
Gross Margin	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%	21.4%	21.6%	21.3%
SG&A Exp.	15	2190	1498	---	---	---	---	---	---	---
D&A Exp.	2587	2611	2631	2995	3095	3353	3615	3793	3970	4176
Operating Profit	3815	2143	3077	4566	4652	4786	2852	5973	6523	5338
Operating Margin	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%	7.1%	7.0%	5.9%
Net Profit	2324	1050	1820	2997	4572	540	1286	5231	3826	3972
Net Margin	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.2%	4.1%	4.4%
Free Cash Flow	731	1019	890	-186	-989	123	-771	4251	3069	2674
Income Tax	1334	577	920	1582	-219	115	383	1443	1070	1391

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	33070	36531	45959	48552	52330	54403	73537	82780	85990	87140
Cash & Equivalents	2908	3763	3534	3969	3265	2319	4881	7087	6897	6856
Accounts Receivable	5460	5719	7252	7599	8481	9116	10102	12070	11860	10190
Inventories	463	498	496	514	525	553	572	587	637	604
Goodwill & Int. Ass.	2790	4017	7755	7683	7453	7300	6372	7344	6544	6669
Total Liabilities	17793	21538	32175	32479	32914	36646	55242	58610	61060	61060
Accounts Payable	1971	2066	2944	2752	2977	3030	3269	3840	4030	3848
Long-Term Debt	4737	7268	13762	14931	16585	17581	22003	20350	20260	19780
Shareholder's Equity	15277	14993	13784	16073	19416	17757	18295	24170	24940	26090
LTD/E Ratio	0.31	0.48	1.00	0.93	0.85	0.99	1.20	0.84	0.81	0.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%	6.7%	4.5%	4.6%
Return on Equity	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%	24.6%	15.6%	15.6%
ROIC	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%	12.4%	8.5%	8.8%
Shares Out.	287.0	282.4	265.5	268.3	272.0	260.9	262.45	264	267	256
Revenue/Share	146.99	165.34	180.52	223.40	240.63	262.99	263.74	318.03	350.24	352.17
FCF/Share	2.36	3.55	3.19	-0.69	-3.64	0.46	-2.94	16.10	11.49	10.45

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

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