



United Parcel Service Inc. (UPS)

Updated October 27th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	13.4%	Market Cap:	\$118 B
Fair Value Price:	\$133	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	11/10/23
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date¹:	12/01/23
Dividend Yield:	4.8%	5 Year Price Target	\$215	Years Of Dividend Growth:	14
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

United Parcel Service, founded in 1907 and headquartered in Atlanta, GA, is a logistics and package delivery company that offers services including transportation, distribution, ground freight, ocean freight, insurance, and financing. Its operations are split into three segments: US Domestic Package, International Package, and Supply Chain & Freight. UPS trades with a market capitalization of \$118 billion.

On January 31st, 2023, UPS increased its quarterly dividend by 6.6% to \$1.62, marking its 14th consecutive annual increase.

On October 26th, 2023, UPS reported third quarter 2023 results for the period ending September 30th, 2023. For the quarter, the company generated revenue of \$21.1 billion, a 12.8% year-over-year decrease. The U.S. Domestic segment (making up 65% of sales) saw an 11.1% revenue decrease, with International also posting an 11% revenue decrease, and Supply Chain Solutions seeing a 21% decrease. Adjusted net income equaled \$1.57 per share, down 48% year-over-year.

UPS now expects revenue of about \$91.8 billion (down from \$93.0 billion previously), along with a consolidated adjusted operating margin of 11.1% (down from 11.8% previously). Additionally, leadership expects capex of \$5.3 billion, as well as \$5.4 billion in dividend payments, and \$2.25 billion (compared to 3.0 billion before) in share repurchases.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.61	\$4.75	\$5.43	\$5.75	\$6.01	\$7.24	\$7.53	\$8.23	\$12.13	\$12.94	\$8.89	\$14.32
DPS	\$2.48	\$2.68	\$2.92	\$3.12	\$3.32	\$3.64	\$3.84	\$4.04	\$4.08	\$6.08	\$6.48	\$8.27
Shares²	924	905	886	868	859	858	857	871	878	871	860	840

During the last financial crisis, UPS' profitability declined substantially. Earnings-per-share dropped from \$4.11 in 2007 to \$2.31 in 2009. Since then, profits have risen relatively consistently. When we look at the 2007-2020 timeframe, earnings-per-share grew by 5.5% annually. In the trailing nine and five years, EPS rose by 12.2% and 10.0%, respectively.

UPS has been experiencing a number of benefits in recent years. One such tailwind is e-commerce, which leads to growth in the number of packages that must be transported across the country. A strong economy drives demand for UPS' services by businesses as well as by consumers, which increase their spending due to higher disposable incomes. With online shopping growth continuing to outpace brick-and-mortar growth for the foreseeable future, UPS should continue to benefit from strong demand for its services.

On the other hand, 2023 guidance has been impacted due to the labor negotiations and the costs associated with its agreement with The International Brotherhood of Teamsters. Over 300,000 UPS employees are covered by the Teamsters deal, which includes contract salary increases for all workers, additional full-time positions, and several workplace safeguards and improvements. It is a five-year agreement that is projected to cost UPS over \$30 billion.

¹ Estimate

² In millions.

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Results were impressive in 2020, despite the COVID-19 pandemic, and outright impressive in 2021 and 2022. Moreover, the long-term tailwinds are very much intact. Indeed, the pandemic has sped up the trend of online shopping. We are forecasting \$8.89 in earnings-per-share for 2023 to go along with a 10.0% annual growth rate.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.3	21.2	18.5	18.4	18.6	15.6	14.7	15.8	15.5	14.6	15.1	15.0
Avg. Yld.	2.8%	2.7%	2.9%	2.9%	3.0%	3.2%	3.5%	3.1%	2.2%	2.7%	4.8%	3.9%

Over the past decade shares of UPS have traded with an average P/E ratio of about 17. While we believe a moderate premium is warranted for the quality of the business, we are comfortable with 15 times earnings as a fair value baseline. With shares trading at 15.1 times our earnings estimate, this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2023	2028
Payout	54%	56%	54%	54%	55%	50%	51%	49%	34%	47%	73%	58%

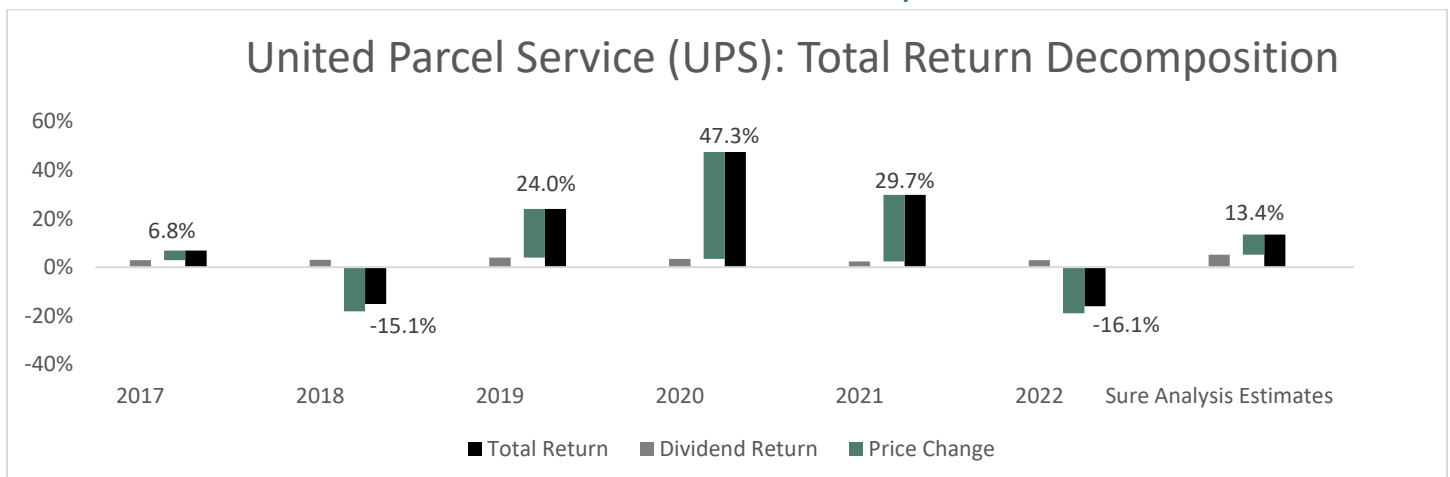
United Parcel Service did not cut its dividend during the last financial crisis, but its payout ratio rose to a relatively high level due to the decline in the company's net profits. Since then, the payout ratio has stabilized around half of earnings, which appears sustainable. We believe that a dividend cut is unlikely, although not impossible during a steep recession.

UPS is the largest logistics/package delivery company in the US. Its top peers include FedEx, DHL Express, and the United States Postal Service. The long-term macro environment is beneficial for the whole industry, thanks to the megatrend of online shopping. None of the big players have an interest in a price war, so volumes could continue to rise even if base pricing is increased over time. Competitive pressures should therefore remain muted for the foreseeable future. UPS was impacted significantly during the last financial crisis, which should be monitored this time around as well.

Final Thoughts & Recommendation

Shares are down 23% year-to-date, which falls short of the performance of the S&P 500 Index, which gained 8% over the same period. United Parcel Service is one of the key companies in an industry that benefits from the online shopping megatrend. It seems likely that UPS will be able to grow its earnings-per-share at a solid pace over the intermediate term. Total return potential comes in at 13.4% per annum, consisting of 10.0% growth and a 4.8% dividend yield, offset by the potential for a valuation headwind. We are upgrading shares of UPS to a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	55438	58232	58363	61610	66585	71861	74094	84630	97287	100338
Gross Profit	12261	10550	13326	13344	13739	13851	13717	15280	20581	13094
Gross Margin	22.1%	18.1%	22.8%	21.7%	20.6%	19.3%	18.5%	18.1%	21.2%	13.0%
D&A Exp.	1867	1923	2084	2224	2282	2207	---	2698	2953	3188
Operating Profit	7034	4968	7668	7688	7529	7024	7798	7684	12810	-74150
Op. Margin	12.7%	8.5%	13.1%	12.5%	11.3%	9.8%	10.5%	9.1%	13.2%	-73.9%
Net Profit	4372	3032	4844	3422	4905	4791	4440	1343	12890	11548
Net Margin	7.9%	5.2%	8.3%	5.6%	7.4%	6.7%	6.0%	1.6%	13.2%	11.5%
Free Cash Flow	5239	3398	5051	3508	-3748	6428	8639	5047	10813	9335
Income Tax	2302	1605	2498	1699	2232	1228	1212	501	3705	3277

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	36212	35440	38311	40377	45574	50016	57857	62410	69405	71124
Cash & Equivalents	4665	2291	2730	3476	3320	4225	5238	5910	10255	5602
Acc. Receivable	6502	6661	7134	7695	8773	8958	---	10750	12541	12583
Inventories	403	344	308	342	404	421	---	620	717	
Goodwill & Int.	2965	3031	4968	5515	5836	5887	---	5641	6178	7019
Total Liabilities	29724	33282	35820	39948	44550	46979	54574	61740	55136	51321
Accounts Payable	2478	2754	2587	3042	3934	5188	---	6455	7523	7512
Long-Term Debt	10872	10779	14334	16075	24289	22202	21818	24650	21915	19662
Total Equity	6474	2141	2470	405	994	3021	3283	657	14253	19786
LTD/E Ratio	1.68	5.03	5.80	39.69	24.44	7.35	6.65	37.53	1.54	0.99

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.6%	8.5%	13.1%	8.7%	11.4%	10.0%	8.2%	2.2%	19.6%	16.4%
Return on Equity	78.6%	70.4%	210%	238%	701%	239%	141%	65.5%	172%	67.9%
ROIC	25.0%	20.0%	32.6%	20.5%	23.5%	19.0%	17.6%	5.0%	41.9%	30.7%
Shares Out.	924	905	886	868	859	850	---	871	878	875
Revenue/Share	58.48	63.02	64.42	69.46	76.10	82.60	85.26	97.16	110.81	114.67
FCF/Share	5.53	3.68	5.58	3.95	-4.28	7.39	9.94	5.79	12.32	10.67

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

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