J.B. Hunt Transport Services (JBHT)

Updated January 27th, 2024, by Ian Bezek

Key Metrics

Current Price:	$206	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$21.2 B
Fair Value Price:	$164	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	02/08/24
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	02/23/24
Dividend Yield:	0.8%	**5 Year Price Target**	$214	**Years Of Dividend Growth:**	22
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

J.B. Hunt Transport Services (JBHT) is a freight carrier company that primarily operates large semi-trailer trucks (semis). The business operates more than 115,000 pieces of company-owned trailing equipment in its fleet. The business is split into 5 segments – Intermodal (JBI), which operates the largest drayage fleet (vans 53 feet long) in North America, Dedicated Contract Services (DCS), which offers design and implementation of supply chain solutions and on-site management, Integrated Capacity Solutions (ICS), which ships domestic and international containers across North America, Truckload (JBT), which is one of the largest capacity networks in North America, allowing users to GPS track trailers, and Final Mile Services (FMS), which provides final destination delivery and installation. Intermodal is the largest of these divisions, followed by Dedicated Contract Services and Integrated Capacity Solutions. The company enjoyed strong demand for logistics services over the past couple of years as American consumers spent money at a record pace. However, that momentum has now gone into reverse.

On January 18th, 2024, J.B. Hunt reported lackluster Q4 2023 results. The business saw diluted earnings-per-share of $1.47, which fell 23% from the $1.92 it earned in the same period of last year. Revenues of $3.3 billion fell 9% year-over-year. For full-year 2023, revenues fell 13% and earnings per share fell 24%. Results this quarter and for the year overall both fell well short of analysts' prior expectations.

The weakness was widespread, with various business divisions showing falling volumes year-over-year. The decline was particularly steep in J.B. Hunt's 360 Marketplace, with the firm's Integrated Capacity Solutions division seeing revenues fall 25% year-over-year. This division had been a source of strength for the company during 2021 and 2022, but has now slumped to making an outright operating loss as demand has evaporated. That was not the only division with issues, however, as weakness was widespread. There is some light at the end of the tunnel though; it appears earnings will bottom out in the first half of 2024 and return to growth in the back half of this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.16	$3.66	$3.81	$3.75	$5.64	$5.21	$4.74	$7.14	$9.21	$6.97	***$7.80***	***$10.19***
DPS	$0.80	$0.84	$0.88	$0.92	$0.96	$1.04	$1.08	$1.18	$1.60	$1.68	***$1.72***	***$2.09***
Shares	117	114	111	110	109	106	106	105	104	103	***103***	***101***

Since 2014, J.B. Hunt has seen earnings-per-share grow at an average annualized rate of 9.2%. The company had enjoyed unusually rapid earnings growth over the past few years. However, 2023 marked a significant retrenchment from 2022's peak. In the bigger picture, we expect earnings growth to decelerate significantly over the next few years as the economy cools off. We forecast that J.B. Hunt will grow earnings per share at 5.5% per year going forward.

Over the past 5 years, dividend payments have grown at a rate of 10.6% annually. We expect that the dividend growth rate will slow down in line with the company's earnings growth. To that point, J.B. Hunt's most recent dividend hike, announced in January 2024, was a mere 2% increase. The company also has a buyback program in effect, but at a rather modest scale.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.2	22.2	21.6	26.0	20.7	20.0	25.1	23.9	21.0	23.5	***26.4***	***21.0***
Avg. Yld.	1.0%	1.0%	1.1%	0.9%	0.8%	1.0%	0.9%	0.7%	0.9%	0.9%	***0.8%***	***1.0%***

Over the past 9 years, J.B. Hunt has averaged a P/E ratio of 22.8, and over the past 5 years, the stock has averaged a P/E ratio of 22.7. We expect that the company's P/E ratio to compress back to its usual low 20s level in the coming years.

A similar outlook holds for the dividend. J.B. Hunt has long offered a dividend yield right around the 1.0% mark, and we expect the yield will remain near that level in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	23%	23%	25%	17%	20%	23%	17%	17%	24%	***22%***	***21%***

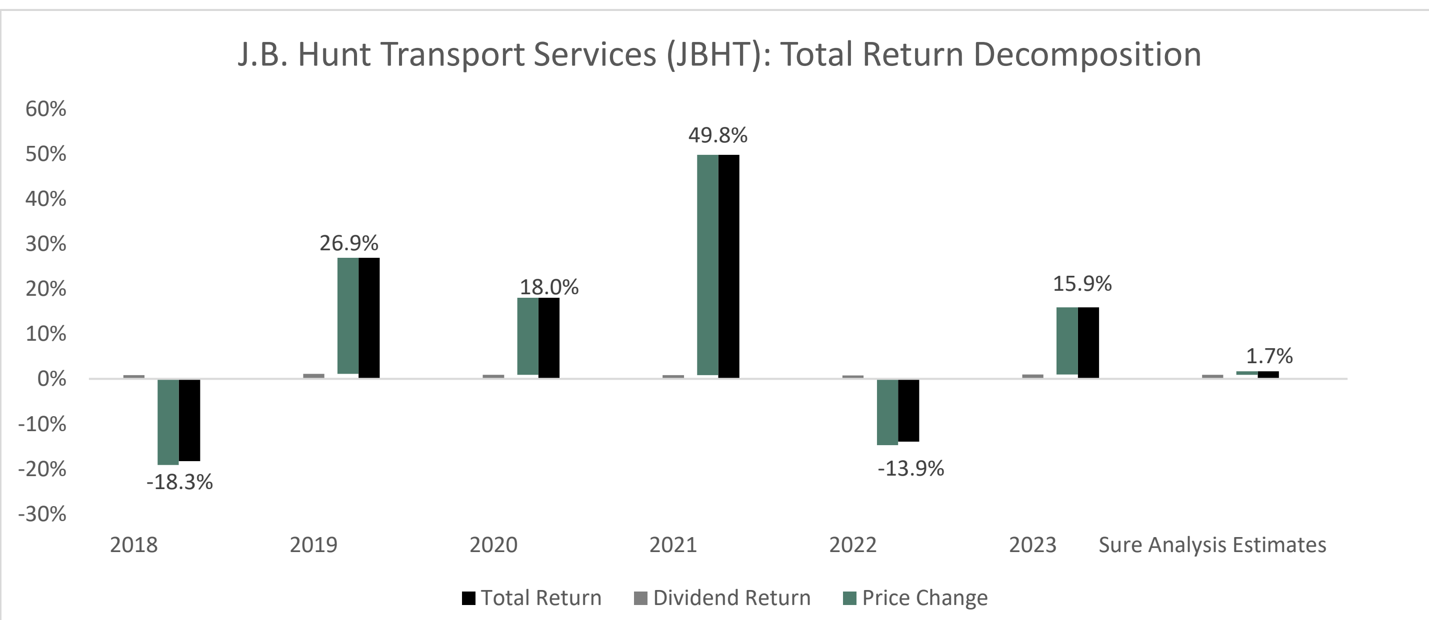
J.B. Hunt has averaged a roughly 20% payout ratio over the past decade. We expect it will continue to increase its dividend in line with earnings, leading to a stable payout ratio. Trucking is historically a cyclical industry prone to downturns during a recession. However, J.B. Hunt's diversified lines of business and large scale historically have given it a good deal of insulation from economic shocks as compared to most of its peers.

J.B Hunt has a fair amount of leverage on its balance sheet. S&P Global rates the company's debt at BBB+. The balance sheet is well within investment-grade parameters, but conditions could change in a more prolonged recession.

Final Thoughts & Recommendation

Given the economic headwinds and continuing demand shortfalls in the trucking industry, J.B. Hunt faces near-term challenges. Despite the series of poor earnings reports, J.B. Hunt still sells at a relatively high P/E multiple and well above our fair value estimate. In our view, shares are already pricing in a strong recovery in the trucking industry that hasn't yet happened. Our total return outlook is just 1.7% annually and shares are at a sell rating today.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,585	6,165	6,188	6,555	7,190	8,615	9,165	9,637	12,168	14,814
Gross Profit	931	1,041	1,146	1,186	1,199	1,359	1,506	1,450	1,870	2,473
Gross Margin	16.7%	16.9%	18.5%	18.1%	16.7%	15.8%	16.4%	15.0%	15.4%	16.7%
SG&A Exp.	120	152	167	185	273	324	384	348	396	570
D&A Exp.	253	294	340	362	384	436	499	527	557	---
Operating Profit	577	632	716	721	624	681	734	713	1,046	1,332
Op. Margin	10.3%	10.2%	11.6%	11.0%	8.7%	7.9%	8.0%	7.4%	8.6%	9.0%
Net Profit	342	375	427	432	686	490	516	506	761	969
Net Margin	6.1%	6.1%	6.9%	6.6%	9.5%	5.7%	5.6%	5.3%	6.3%	6.5%
Free Cash Flow	81	(162)	148	216	328	92	244	384	276	---
Income Tax	211	230	263	264	(91)	151	165	160	239	312

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,819	3,378	3,630	3,951	4,465	5,092	5,471	5,928	6,794	7,742
Cash & Equivalents	6	6	6	6	15	8	35	313	356	52
Acc. Receivable	569	654	624	745	921	1,052	1,012	1,124	1,507	1,528
Inventories	26	28	23	19	21	22	21	24	25	---
Goodwill & Int.	---	---	---	2	113	105	203	212	191	---
Total Liabilities	1,807	2,174	2,329	2,537	2,626	2,990	3,204	3,328	3,677	4,076
Accounts Payable	305	326	340	384	599	710	603	588	773	799
Long-Term Debt	708	934	998	986	1,086	1,149	1,296	1,305	1,301	1,262
Total Equity	1,012	1,205	1,300	1,414	1,839	2,101	2,267	2,600	3,118	3,667
LTD/E Ratio	0.70	0.78	0.77	0.70	0.59	0.55	0.57	0.50	0.42	0.34

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	13.0%	12.1%	12.2%	11.4%	16.3%	10.2%	9.8%	8.9%	12.0%	13.3%
Return on Equity	38.0%	33.8%	34.1%	31.8%	42.2%	24.8%	23.6%	20.8%	26.6%	28.6%
ROIC	21.4%	19.4%	19.3%	18.4%	25.8%	15.9%	15.2%	13.6%	18.3%	20.7%
Shares Out.	117	117	114	111	110	109	106	106	105	104
Revenue/Share	46.77	52.05	53.01	57.83	64.74	78.01	84.62	90.26	114.16	140.72
FCF/Share	0.68	(1.37)	1.27	1.90	2.96	0.83	2.26	3.60	2.59	---

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