



Old Dominion Freight Line, Inc. (ODFL)

Updated February 1st, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	\$391	5 Year CAGR Estimate:	9.9%	Market Cap:	\$42.7 B
Fair Value Price:	\$343	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	03/05/24
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	03/20/24
Dividend Yield:	0.5%	5 Year Price Target	\$605	Years Of Dividend Growth:	7
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Buy

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 \$42.7 billion; its nearly 22,800 employees operate over 258 service centers in 48 states, 11,293 tractors (trucks), and 46,385 trailers. Founded in 1934, its largest competitor in the highly competitive LTL industry is JB Hunt Transport Services Inc.

On January 31st, 2024, Old Dominion increased its dividend by 30% to a quarterly rate of \$0.52.

On the same day, Old Dominion reported its Q4 and full-year results for the quarter ending December 31st, 2023. Total revenue of \$1.50 billion was just 0.3% higher than in Q4-2022, while diluted earnings per share rose by 0.7% to \$2.94.

This slight increase in revenue was primarily due to a 3.0% increase in LTL revenue per hundredweight that more than offset the 2.0% decrease in LTL tons per day.

Throughout the quarter, the company demonstrated exceptional operational efficiency and upheld rigorous control over discretionary spending. Despite these efforts, the challenge of relatively stagnant sales in the face of inflationary pressures inevitably led to a modest margin compression. Specifically, ODFL's salaries, wages, and benefit costs as a percent of revenue rose from 44.0% last year to 44.9%.

Hence, the company's operating income margin fell 60 basis points to 28.2%. Still, the 0.3% decline in net income was more than offset by a 1.3% reduction in the share count – hence the modest earnings per share growth. For the year, earnings per share fell by 7.6% to \$11.26, nonetheless.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.07	\$2.38	\$2.37	\$2.91	\$4.92	\$5.11	\$5.68	\$8.89	\$12.18	\$11.26	\$13.20	\$23.26
DPS	---	---	---	\$0.27	\$0.35	\$0.45	\$0.60	\$0.80	\$1.20	\$1.60	\$2.08	\$6.35
Shares	129	127	124	124	122	120	117	116	111	110	110	105.0

Despite facing growth challenges in 2023 after an impressive three-year post-pandemic surge from 2020 to 2022, we believe that growth will rebound in 2024. Management plans a strategic CAPEX of \$750 million, covering real estate expansion (\$350 million), tractors and trailers (\$325 million), and I.T. assets (\$75 million). These investments are expected to enhance operational efficiency and contribute positively to the company's overall performance.

For context, over the past five years, earnings-per-share has risen by an average of 20.7% per year. Earnings-per-share has also been getting a boost from share buybacks since 2015, with the company spending \$453.6 million on buybacks in 2023. From 2014 to 2023, ODFL reduced its share count from 129 million to 110 million, a ~15% reduction. We are forecasting \$13.20 in earnings-per-share for 2024 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 35.8% per year, including this year when it went up by 30% (from \$1.60 to \$2.08). We estimate slower, but still significant average annual growth of 25%, as the company

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works toward a normalized payout ratio. At that rate, the 2029 dividend would amount to \$6.35, and the expected payout ratio would be 27%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.7	19.4	19.2	22.7	19.4	20.8	29.6	30.5	25.9	30	29.6	26.0
Avg. Yld.	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	1.0%

Old Dominion has traded with an average P/E ratio of about 23 to 24 times earnings over the last decade, which is what we are using for a fair value estimate. With shares presently trading hands at 29.6 times expected earnings, this implies the possibility for a valuation headwind ahead, given our fair multiple stands at a more modest 26X. 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 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	9%	7%	9%	11%	9%	10%	14%	16%	27%

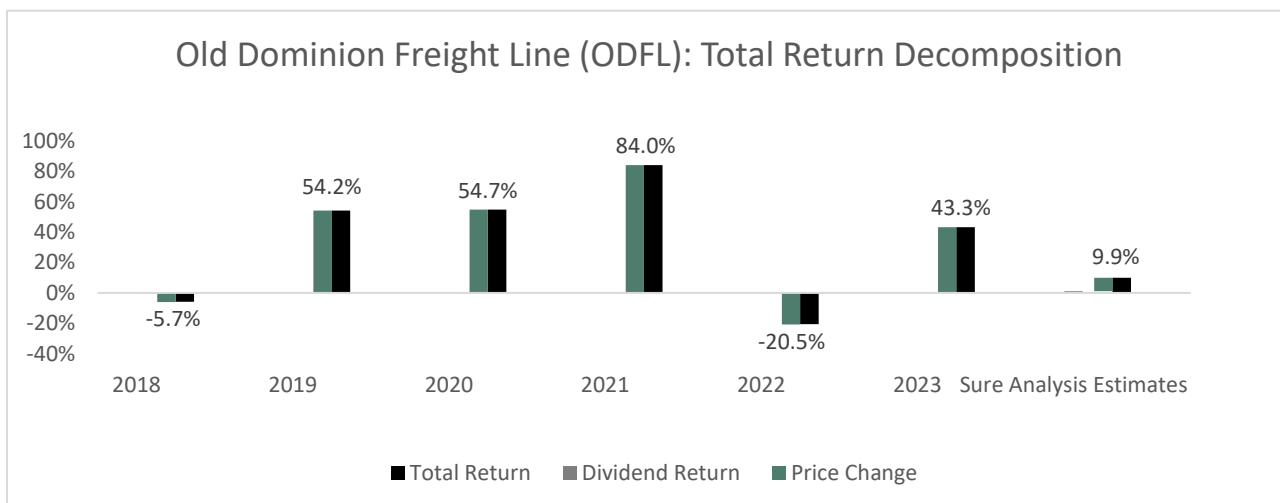
Old Dominion argues its competitive advantage lies in being able to deliver superior service at a fair price. The company is reasonably recession resistant. Despite the sharp economic downturn in 2020, its revenue was roughly flat, but its EPS and cash flow per share were up by high single digits. In 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 \$60 million in long-term debt, none of which is due in the next four years. Long-term interest is just \$460 thousand 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. Total expected returns come in at 9.9% per annum, driven by our expected growth rate of 12%, the 0.5% dividend yield, offset by the potential for a 2.6% annual valuation headwind. ODFL shares earn 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
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.

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