



# United Parcel Service Inc. (UPS)

Updated January 31<sup>st</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$142	<b>5 Year CAGR Estimate:</b>	12.4%	<b>Market Cap:</b>	\$124 B
<b>Fair Value Price:</b>	\$135	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/19/24
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-1.0%	<b>Dividend Payment Date<sup>1</sup>:</b>	03/08/24
<b>Dividend Yield:</b>	4.6%	<b>5 Year Price Target</b>	\$218	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$124 billion.

UPS announced it increased its quarterly dividend by one penny to \$1.63 on January 30<sup>th</sup>, 2024, marking its 15<sup>th</sup> consecutive annual increase.

On January 30<sup>th</sup>, 2024, UPS reported fourth quarter 2023 results for the period ending December 31<sup>st</sup>, 2023. For the quarter, the company generated revenue of \$24.9 billion, a 7.8% year-over-year decrease. The U.S. Domestic segment (making up 68% of sales) saw a 7.3% revenue decrease, with International also posting a 6.9% revenue decrease, and Supply Chain Solutions seeing an 11.4% decrease. Adjusted net income equaled \$2.47 per share, down 32% year-over-year.

UPS now expects revenue of about \$92.0 billion to \$94.5 billion, along with a consolidated adjusted operating margin of 10.0% to 10.6%. Additionally, leadership expects capex of \$4.5 billion, as well as \$5.4 billion in dividend payments.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.75	\$5.43	\$5.75	\$6.01	\$7.24	\$7.53	\$8.23	\$12.13	\$12.94	\$8.78	<b>\$9.03</b>	<b>\$14.54</b>
<b>DPS</b>	\$2.68	\$2.92	\$3.12	\$3.32	\$3.64	\$3.84	\$4.04	\$4.08	\$6.08	\$6.48	<b>\$6.52</b>	<b>\$8.32</b>
<b>Shares<sup>2</sup></b>	905	886	868	859	858	857	871	878	871	860	<b>855.0</b>	<b>840.0</b>

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 7.1% and 3.7%, 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.

Results for 2023 were 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 was originally projected to cost UPS over \$30 billion, but that is now likely to be lower.

<sup>1</sup> Estimate

<sup>2</sup> In millions.

*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.*



# United Parcel Service Inc. (UPS)

Updated January 31<sup>st</sup>, 2024 by Quinn Mohammed

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 \$9.03 in earnings-per-share for 2024 to go along with a 10.0% annual growth rate.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.2	18.5	18.4	18.6	15.6	14.7	15.8	15.5	14.6	17.5	15.8	15.0
Avg. Yld.	2.7%	2.9%	2.9%	3.0%	3.2%	3.5%	3.1%	2.2%	2.7%	3.7%	4.6%	3.8%

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 15.8 times our earnings estimate, this implies a valuation headwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	56%	54%	54%	55%	50%	51%	49%	34%	47%	74%	72%	57%

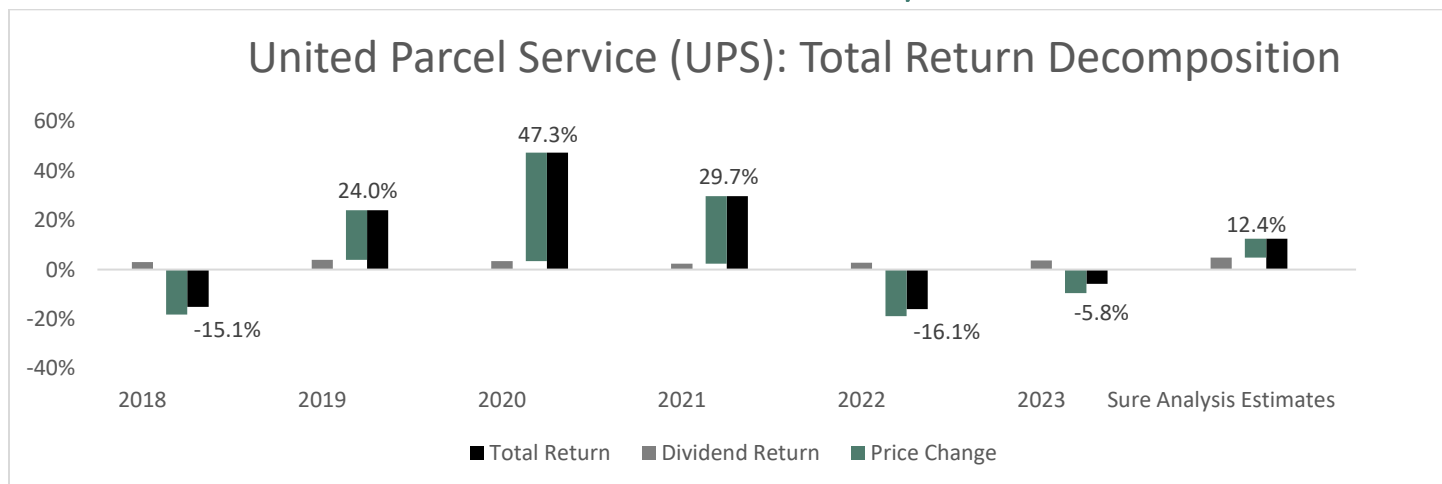
United Parcel Service did not cut its dividend during the last financial crisis, but its payout ratio rose to a relatively high level due to the decline in the company's net profits. Since then, the payout ratio has stabilized around half of earnings, which appears sustainable. We believe that a dividend 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 9% year-to-date, which falls short of the performance of the S&P 500 Index, which gained 2% 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 12.4% per annum, consisting of 10.0% growth and a 4.6% dividend yield, offset by the potential for a valuation headwind. We are maintaining shares of UPS at a buy rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# United Parcel Service Inc. (UPS)

Updated January 31<sup>st</sup>, 2024 by Quinn Mohammed

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	58363	61610	66585	71861	74094	84630	97287	100338	100338	90960
Gross Profit	13326	13344	13739	13851	13717	15280	20581	13094	13094	30880
Gross Margin	22.8%	21.7%	20.6%	19.3%	18.5%	18.1%	21.2%	13.0%	13.0%	33.9%
D&A Exp.	2084	2224	2282	2207	---	2698	2953	3188	3188	3366
Operating Profit	7668	7688	7529	7024	7798	7684	12810	-74150	-74150	9141
Op. Margin	13.1%	12.5%	11.3%	9.8%	10.5%	9.1%	13.2%	-73.9%	-73.9%	10.0%
Net Profit	4844	3422	4905	4791	4440	1343	12890	11548	11548	6708
Net Margin	8.3%	5.6%	7.4%	6.7%	6.0%	1.6%	13.2%	11.5%	11.5%	7.4%
Free Cash Flow	5051	3508	-3748	6428	8639	5047	10813	9335	9335	5080
Income Tax	2498	1699	2232	1228	1212	501	3705	3277	3277	1865

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	35440	38311	40377	45574	50016	57857	62410	69405	71124	70860
Cash & Equivalents	2291	2730	3476	3320	4225	5238	5910	10255	5602	3206
Acc. Receivable	6661	7134	7695	8773	8958	---	10750	12541	12583	11220
Inventories	344	308	342	404	421	---	620	717		
Goodwill & Int.	3031	4968	5515	5836	5887	---	5641	6178	7019	8177
Total Liabilities	33282	35820	39948	44550	46979	54574	61740	55136	51321	53540
Accounts Payable	2754	2587	3042	3934	5188	---	6455	7523	7512	6340
Long-Term Debt	10779	14334	16075	24289	22202	21818	24650	21915	19662	22260
Total Equity	2141	2470	405	994	3021	3283	657	14253	19786	17310
LTD/E Ratio	5.03	5.80	39.69	24.44	7.35	6.65	37.53	1.54	0.99	1.29

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	13.1%	8.7%	11.4%	10.0%	8.2%	2.2%	19.6%	16.4%	9.5%
Return on Equity	70.4%	210%	238%	701%	239%	141%	65.5%	172%	67.9%	36.2%
ROIC	20.0%	32.6%	20.5%	23.5%	19.0%	17.6%	5.0%	41.9%	30.7%	17.1%
Shares Out.	905	886	868	859	850	---	871	878	875	860
Revenue/Share	63.02	64.42	69.46	76.10	82.60	85.26	97.16	110.81	114.67	105.77
FCF/Share	3.68	5.58	3.95	-4.28	7.39	9.94	5.79	12.32	10.67	5.91

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.