FedEx Corporation (FDX)

Updated June 27th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$290	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$71.7 B
Fair Value Price:	$315	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/24/24
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	07/09/24
Dividend Yield:	1.9%	**5 Year Price Target**	$422	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 June 10th, FedEx increased its dividend by 9.5% to a quarterly rate of $1.38.

On June 25th, 2024, FedEx posted its fiscal Q4 and full-year results for the period ending May 31st, 2024. For the quarter, revenues rose 0.8% to $22.1 billion against the prior-year period.

FedEx Ground's improved operating results stemmed from lowered structural costs via DRIVE initiatives, enhanced yield, reduced self-insurance expenses, and increased commercial ground volume. FedEx Freight posted increased operating results driven by higher yield and efficient cost control, with plans to optimize operations by permanently closing seven facilities. However, these gains were somewhat offset by FedEx Express, which saw softer operating results mainly due to decreased international yields, although this was partially counterbalanced by lower structural costs from DRIVE initiatives and higher yields in U.S. domestic packages.

Total adjusted operating income improved by 5.6% to $1.87 billion. Again, most gains here were produced due to the execution of the DRIVE program. 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 9.5% to $5.41. For the full-year, adjusted EPS rose 19% to $17.80. GAAP EPS was $17.21.

For fiscal 2025, management introduced its adjusted EPS outlook, which it expects to land between $20.00 and $22.00. We have employed the midpoint of this range in our estimates. All other figures in our tables reflect GAAP results.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.70	$6.59	$11.25	$17.10	$2.06	$4.92	$19.45	$14.33	$15.48	$17.21	***$21.00***	***$28.10***
DPS	$0.85	$1.15	$1.70	$2.15	$2.60	$2.60	$2.60	$3.00	$4.60	$5.04	***$5.52***	***$7.39***
Shares[1]	287	279	270	272	265	262	268	266	256	251	***251***	***230***

FedEx is likely to continue facing growth headwinds during the current 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

[1] In millions

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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 coming years and FedEx's cost-reduction initiatives. Finally, FedEx has been executing a high amount of buybacks, having retired around 13% of its shares over the past decade.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.5	18.4	14.4	14.6	15.2	13.5	14.4	17.0	13.3	13.7	***13.8***	***15.0***
Avg. Yld.	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	0.9%	2.2%	2.1%	***1.9%***	***1.8%***

Due to its sensitivity to economic cycles, FedEx has traditionally commanded reasonable valuation multiples in the mid-teens. Currently, shares are trading at a P/E ratio of 13.8, slightly below the ten-year average of 15.3. We find FedEx's optimistic outlook and ongoing cost-cutting initiatives promising, leading us to believe shares are modestly undervalued at present levels. We maintain our fair P/E estimate at 15. Additionally, with a dividend yield of 1.9%, which exceeds the company's historical average due to recent aggressive dividend increases over the past four years, the stock presents an attractive opportunity.

Safety, Quality, Competitive Advantage, & Recession Resiliency

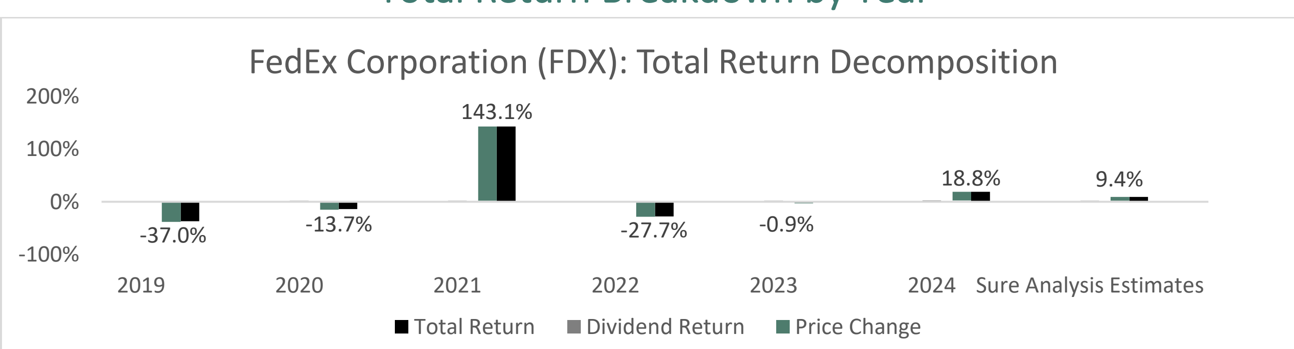
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	23%	17%	15%	13%	126%	53%	13%	21%	30%	29%	***26%***	***26%***

FedEx excels in safety and quality, maintaining consistent profitability and a robust balance sheet. With ample cash flow, it comfortably meets debt obligations, funds growth, and returns capital to shareholders. Despite the current interest rate environment, its interest coverage ratio is strong at 15 times operating cash flows, and its dividend payout ratio remains low at 26%. Operating in a duopolistic sector alongside UPS, FedEx benefits from a strong competitive position and significant economies of scale. Its extensive network has cemented its reputation as a reliable global transportation leader. Finally, the pandemic underscored the essential nature of its services, reinforcing confidence in its ability to maintain dividends even under severe conditions.

Final Thoughts & Recommendation

FedEx's revenue growth may face some pressure in the current consumer economy. That said, with inflation easing and consumers' purchasing power remaining strong, the company should keep driving earnings growth. Our forecasts point towards annualized medium-term returns of 9.4%, powered by our modest growth expectations, the stock's dividend yield, and the potential for a modest valuation tailwind. FedEx earns a hold 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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