Old Dominion Freight Line, Inc. (ODFL)

Updated July 29th, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$198	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$43.1 B
Fair Value Price:	$151	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	09/04/24
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	09/18/24
Dividend Yield:	0.5%	**5 Year Price Target**	$267	**Years Of Dividend Growth:**	7
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

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, the company has a market cap of $43.1 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 (JBHT).

On February 26th, 2024, Old Dominion declared a two-for-one (2:1) stock split which has now completed. We have updated all past figures accordingly.

On July 24th, 2024, Old Dominion reported its Q2 results for the quarter ending June 30th, 2024. Total revenue of $1.50 billion was 6.1% higher than in Q2-2023, while diluted earnings per share rose by 11.3% to $1.48.

This increase in revenue was primarily due to a 4.4% increase in LTL revenue per hundredweight and a 1.9% increase in LTL tons per day. The increase in LTL tons per day reflects a 3.1% increase in LTL shipments per day which was slightly tempered by a 1.2% reduction in weight per shipment.

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 45.5% last year to 45.6%.

Still, the company's operating income margin expanded 40 basis points to 28.1%. Thus, net income grew by 10.2%, with the per-share figure further aided by a 1.3% reduction in the share count – hence the higher earnings-per-share growth.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.03	$1.19	$1.19	$1.88	$2.46	$2.55	$2.84	$4.44	$6.09	$5.63	***$5.82***	***$10.26***
DPS	---	---	---	$0.13	$0.18	$0.23	$0.30	$0.40	$0.60	$0.80	***$1.04***	***$3.17***
Shares	259	256	250	247	246	241	237	233	226	220	***218***	***200***

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 in 2024, 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 20.8% 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 259 million to 220 million, a ~15% reduction. We are forecasting $5.82 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).

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In the past five years, the dividend has increased by an average of 35.1% per year, including this year when it went up by 30% (from $0.80 to $1.04). We estimate slower, but still significant average annual growth of 25%, as the company works toward a normalized payout ratio. At that rate, the 2029 dividend would amount to $3.17, and the expected payout ratio would be 31%.

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	***34.1***	***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%***	***1.2%***

Old Dominion has traded with an average P/E ratio of about 23 to 24 times earnings over the last decade, but we believe fair value is slightly ahead of this range. With shares presently trading hands at 34.1 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	---	---	---	7%	7%	9%	11%	9%	10%	14%	***18%***	***31%***

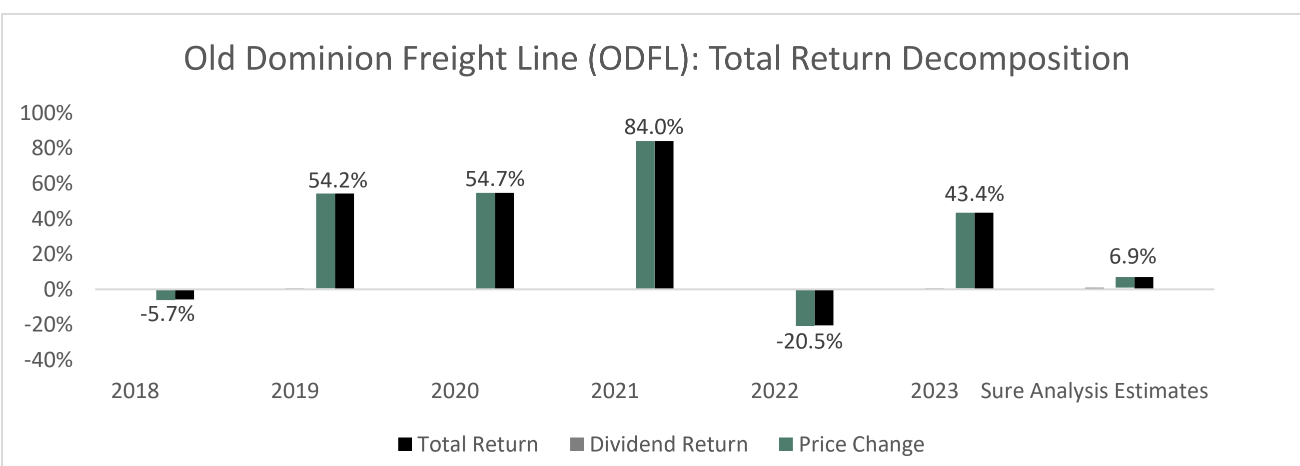
Old Dominion argues its competitive advantage lies in being able to deliver superior service at a fair price. The company is reasonably recession resistant. Despite the sharp economic downturn in 2020, its revenue was roughly flat, but its EPS and cash flow per share were up by high single digits. In the 2008 through 2010 period Old Dominion posted earnings-per-share of $0.55, $0.28, and $0.60 (pre-split numbers).

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 6.9% per annum, driven by our expected growth rate of 12% and the 0.5% dividend yield, offset by the potential for a 5.3% annual valuation headwind. ODFL shares earn a hold rating.

Total Return Breakdown by Year



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	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,972	2,992	3,358	4,044	4,109	4,015	5,256	6,260	5,866
Gross Profit	757	745	875	1,144	1,170	1,229	1,775	2,256	2,072
Gross Margin	25.5%	24.9%	26.1%	28.3%	28.5%	30.6%	33.8%	36.0%	35.3%
SG&A Exp.	154	152	177	194	206	184	224	259	281
D&A Exp.	165	190	206	230	254	261	260	276	324
Operating Profit	498	484	576	817	819	907	1,392	1,841	1,641
Op. Margin	16.8%	16.2%	17.1%	20.2%	19.9%	22.6%	26.5%	29.4%	28.0%
Net Profit	305	296	464	606	616	673	1,034	1,377	1,240
Net Margin	10.3%	9.9%	13.8%	15.0%	15.0%	16.8%	19.7%	22.0%	21.1%
Free Cash Flow	92	148	154	312	505	708	663	916	812
Income Tax	185	182	112	210	208	229	354	464	408

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,467	2,696	3,068	3,545	3,996	4,369	4,822	4,839	5,512
Cash & Equivalents	11	10	127	190	404	401	463	186	434
Acc. Receivable	311	320	394	428	398	445	567	579	579
Goodwill & Int.	19	19	19	19	---	---	---	---	---
Total Liabilities	782	845	792	865	915	1,043	1,142	1,186	1,255
Accounts Payable	67	89	74	79	70	69	83	106	113
Long-Term Debt	134	105	95	45	45	100	100	100	80
Total Equity	1,685	1,851	2,277	2,680	3,081	3,326	3,680	3,653	4,258
LTD/E Ratio	0.08	0.06	0.04	0.02	0.01	0.03	0.03	0.03	0.02

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	13.0%	11.5%	16.1%	18.3%	16.3%	16.1%	22.5%	28.5%	24%
Return on Equity	19.2%	16.7%	22.5%	24.4%	21.4%	21.0%	29.5%	37.6%	31.3%
ROIC	17.6%	15.7%	21.4%	23.8%	21.0%	20.5%	28.7%	36.6%	30.6%
Shares Out.	127	124	124	122	120	117	116	113	220
Revenue/Share	23.21	23.98	27.17	32.87	34.07	33.88	45.15	55.36	26.64
FCF/Share	0.72	1.18	1.25	2.53	4.18	5.97	5.69	8.10	3.69

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