FedEx Corporation (FDX)

Updated December 21st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$276	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$66.4 B
Fair Value Price:	$273	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/09/24
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	01/03/25
Dividend Yield:	2.0%	**5 Year Price Target**	$365	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 1st, 2024, FedEx Ground and FedEx Services merged into Federal Express, creating a unified air-ground network. FedEx Freight remains separate for freight services. FedEx Custom Critical is now included in the FedEx Freight segment.

On December 19th, 2024, FedEx released its fiscal Q2 results for the period ending November 30th, 2024. The company reported a 1% year-over-year revenue decline to $22.0 billion.

FedEx Express saw improved adjusted operating income, benefiting from DRIVE cost reduction savings of $540 million and higher international export volume, though it faced challenges from the expiration of its USPS contract and weak U.S. domestic demand. FedEx Freight experienced a revenue decline driven by softer industrial activity and lower fuel surcharges, which were only partially offset by base yield improvements. Ground services reported a decline in volumes, particularly in the B2B segment, with continued competitive pressures in the pricing environment.

The adjusted operating income for the company fell 3% year-over-year to $1.38 billion. Declines in Freight profitability and inflationary pressures offset the cost savings achieved through DRIVE and pricing actions. That said, adjusted EPS was $4.05, up from $3.99 the previous year, due to the completion of $1 billion in share buybacks during the quarter.

For fiscal 2025, FedEx revised its adjusted EPS outlook lower, expecting it to land between $19.00 and $20.00 (down from $20.00 to $21.00). We have updated our estimates accordingly. 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	***$19.50***	***$26.10***
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	***241***	***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 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

[1] In millions

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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	***14.1***	***14.0***
Avg. Yld.	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	0.9%	2.2%	2.1%	***2.0%***	***2.0%***

Due to its sensitivity to economic cycles, FedEx has traditionally commanded reasonable valuation multiples in the mid-teens. Shares are now trading at a P/E ratio of 14.1, below the ten-year average of 15.3. While we find FedEx's outlook optimistic and ongoing cost-cutting initiatives promising, we believe the stock is fairly valued at current levels. We have set our fair P/E estimate at 14. The dividend yield of 2.0% exceeds its historical average due to bold dividend hikes over the past four years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

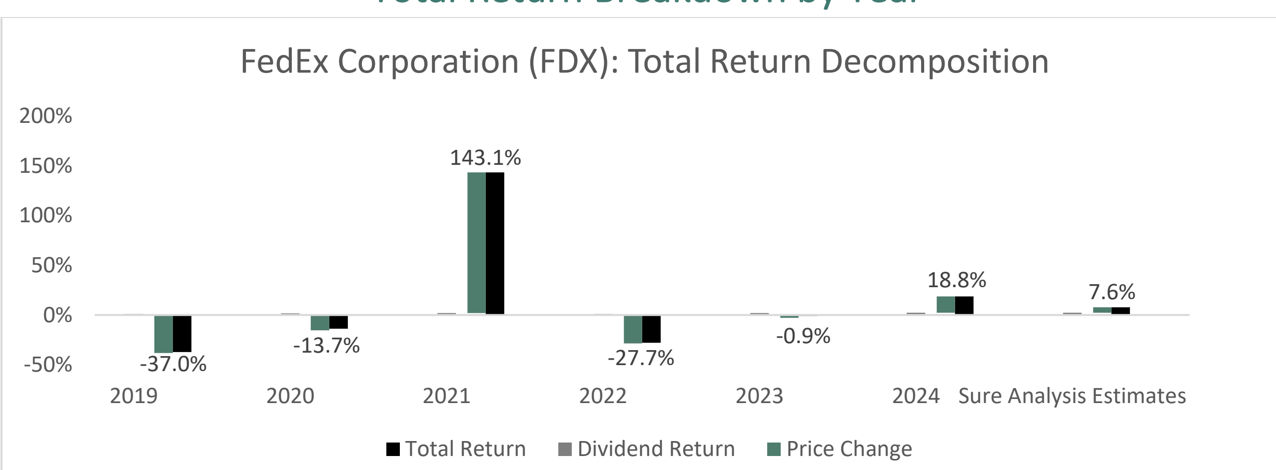
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	23%	17%	15%	13%	126%	53%	13%	21%	30%	29%	***28%***	***28%***

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 projected dividend payout ratio remains low at 28%. 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 faces some pressure in the current consumer economy. That said, with inflation easing and purchasing power among consumers remaining strong, the company should keep driving earnings growth. Our forecasts point towards annualized medium-term returns of 7.6%, driven by our modest growth expectations, the stock's dividend yield, and assumptions of a relatively stable valuation ahead. FedEx earns 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	2024
Revenue	47453	50365	60319	65450	69693	69217	83960	93510	90160	87690
Gross Profit	10748	11826	13318	14102	14827	13344	17950	20170	19170	18950
Gross Margin	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%	21.4%	21.6%	21.3%	21.6%
SG&A Exp.	2190	1498	---	---	---	---	---	---	---	---
D&A Exp.	2611	2631	2995	3095	3353	3615	3793	3970	4176	4287
Operating Profit	2143	3077	4566	4652	4786	2852	5973	6523	5338	6298
Operating Margin	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%	7.1%	7.0%	5.9%	7.2%
Net Profit	1050	1820	2997	4572	540	1286	5231	3826	3972	4331
Net Margin	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.2%	4.1%	4.4%	4.9%
Free Cash Flow	1019	890	-186	-989	123	-771	4251	3069	2674	3136
Income Tax	577	920	1582	-219	115	383	1443	1070	1391	1505

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	36531	45959	48552	52330	54403	73537	82780	85990	87140	87010
Cash & Equivalents	3763	3534	3969	3265	2319	4881	7087	6897	6856	6501
Accounts Receivable	5719	7252	7599	8481	9116	10102	12070	11860	10190	10090
Inventories	498	496	514	525	553	572	587	637	604	614
Goodwill & Int. Ass.	4017	7755	7683	7453	7300	6372	7344	6544	6669	6423
Total Liabilities	21538	32175	32479	32914	36646	55242	58610	61060	61060	59420
Accounts Payable	2066	2944	2752	2977	3030	3269	3840	4030	3848	3189
Long-Term Debt	7268	13762	14931	16585	17581	22003	20350	20260	19780	20200
Shareholder's Equity	14993	13784	16073	19416	17757	18295	24170	24940	26090	27580
LTD/E Ratio	0.48	1.00	0.93	0.85	0.99	1.20	0.84	0.81	0.76	0.73

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%	6.7%	4.5%	4.6%	5.0%
Return on Equity	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%	24.6%	15.6%	15.6%	16.1%
ROIC	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%	12.4%	8.5%	8.8%	9.2%
Shares Out.	282.4	265.5	268.3	272.0	260.9	262.45	264	267	256	251
Revenue/Share	165.34	180.52	223.40	240.63	262.99	263.74	318.03	350.24	352.17	349.37
FCF/Share	3.55	3.19	-0.69	-3.64	0.46	-2.94	16.10	11.49	10.45	12.49

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