

CH Robinson(CHRW)

\$73.58 (As of 02/06/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Shares of C.H. Robinson have underperformed the industry in a year's time, primarily due to weak truck pricing thanks to excess capacity and soft freight demand. Evidently, total revenues declined 7.9% in 2019. The top line was primarily hurt due to soft truckload revenues, which declined 6.7% in 2019 due to the aforementioned headwinds. C.H. Robinson expects the challenges pertaining to net revenue per load to persist through the first half of 2020. Deterioration in operating ratio mainly due to revenue weakness is also concerning. The downward revision of the Zacks Consensus Estimate for current-quarter earnings reflects the negative sentiments surrounding the stock. However, we are positive on C.H. Robinson's efforts to reward its shareholders through dividends and share buybacks. Its growth-by-acquisition policy is commendable too.

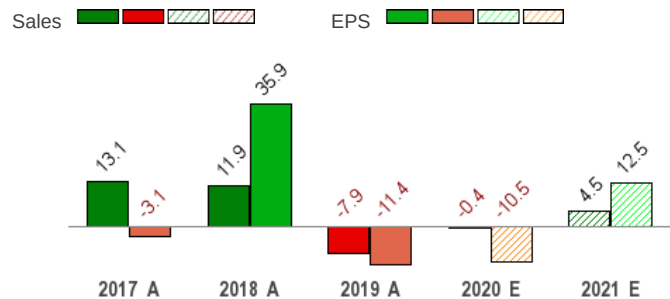
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.72 - \$71.73
20 Day Average Volume (sh)	1,715,450
Market Cap	\$10.0 B
YTD Price Change	-5.9%
Beta	0.60
Dividend / Div Yld	\$2.04 / 2.8%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 28% (183 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.5%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-13.8%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	17.6
P/E F1	19.6
PEG F1	2.2
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,758 E	4,108 E	4,123 E	4,105 E	15,936 E
2020	3,585 E	3,759 E	3,902 E	3,950 E	15,248 E
2019	3,751 A	3,909 A	3,856 A	3,793 A	15,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.97 E	\$1.11 E	\$1.18 E	\$1.14 E	\$4.22 E
2020	\$0.75 E	\$0.89 E	\$0.98 E	\$0.97 E	\$3.75 E
2019	\$1.16 A	\$1.22 A	\$1.07 A	\$0.73 A	\$4.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

Based in Minnesota, C.H. Robinson Worldwide Inc. is a third-party logistics company. As a non-asset based transportation provider, C.H. Robinson provides freight transportation services and logistic solutions to companies across a range of industries. The company's services range from commitments on a specific shipment to more comprehensive and integrated relationships.

During 2018, the company was responsible for handling approximately 18 million shipments and served more than 124,000 customers. C.H. Robinson operates through a network of offices in North America, Europe, Asia, Oceania, and South America.

In 2018, the company utilized approximately 76,000 contracted transportation companies, including motor carriers, railroads (mainly intermodal service providers), apart from air and ocean carriers.

On the basis of the needs of its customers and their supply chain requirements, the company selects the mode of transportation for a shipment.

The company's major divisions are as follows:

NAST offers freight transportation services across North America through a network of offices in the United States, Canada, and Mexico. In May 2019, C.H. Robinson purchased Dema Service which is integrated into its European Surface Transportation division and Navisphere, the single global technology platform.

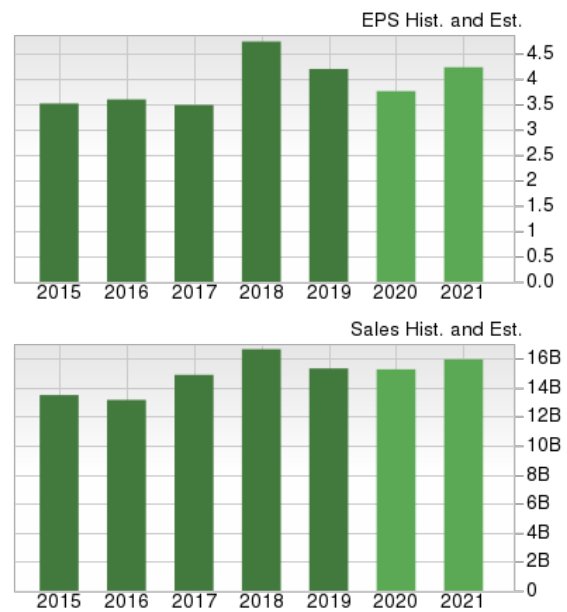
The **Global Forwarding** unit is responsible for providing global logistics services through an international network of offices in North America, Asia, Europe, Australia, and South America. It also contracts with independent agents worldwide. In a bid to strengthen its Global Forwarding business, C.H. Robinson acquired The Space Cargo Group in March 2019.

The **Robinson Fresh** unit offers sourcing services including the buying, selling, and marketing of fresh fruits, vegetables, and other perishable items. From first-quarter 2019, NAST results include those of Robinson Fresh transportation, which were previously reported under a separate segment.

In 2018, the NAST, and Global Forwarding units contributed 67.7%, 15% respectively to total revenues of \$16.6 billion.

The All Other and Corporate unit comprises of the company's non-reportable segments, like Managed Services.

The company's fiscal year coincides with the calendar year.



Reasons To Sell:

- ▼ Unfavorable pricing across most service lines has been affecting the company's growth. Revenues declined 7.9% year over year in 2019. The top line was primarily hurt due to soft truckload revenues, which declined 6.7% in 2019 due to the aforementioned headwinds. Additionally, in the global forwarding market, the company has been witnessing air and ocean volume contractions due to soft demand as a result of the trade dispute. Amid the weak freight demand, excess truck capacity is weighing on the company's truckload volumes. The recently signed phase one trade deal between the United States and China is likely to bring about some betterment in the freight downturn. However, things are unlikely to improve dramatically unless the trade war is fully resolved.
- ▼ Despite the freight woes, the company is focused on making investments in technology. Though aimed at long-term growth prospects, the large capital expenses might weigh on C.H. Robinson's bottom line in the near term. This is especially concerning for the company as it is already battling weak earnings due to soft volumes. The company, which made capital expenditures worth \$70.5 million in 2019, projects the same to be between \$60 million and \$70 million for 2020. Majority of the amount will be spent on technology. Its decision to invest \$1 billion in technology over the next five years will increase capex further.
- ▼ The frequent management changes at C.H. Robinson do not bode well as far as investors' confidence in the stock is concerned. In February 2019, C.H. Robinson promoted its current chief operating officer, Robert Biesterfeld, to the position of chief executive officer. Additionally, Andrew Clarke quit as chief financial officer in 2019. Mike Zechmeister has replaced him as the new chief financial officer.
- ▼ Deterioration in operating ratio (operating expenses as a percentage of net revenues) mainly due to revenue weakness is also concerning. Notably, the metric declined to 69.5% in 2019 from 2018's 66.3%. A lower value of the metric is desirable. Moreover, the downward revision of the Zacks Consensus Estimate for current-year earnings reflects the negative sentiments surrounding the stock.

Unfavorable pricing is impeding C.H. Robinson's growth.

Risks

- We are positive on the company's efforts to reward shareholders through dividends and share buybacks. In December 2019, the company's board announced an increase in its quarterly cash dividend by a penny, to 51 cents per share (\$2.04 annually). It has paid dividends for more than 25 years now. Moreover, the company boosted its buyback program in May 2019, adding another 15 million shares to the existing share repurchase authorization of 1.2 million shares (approved in 2013). C.H. Robinson returned around \$600 million to shareholders in 2018. In 2019, the company returned \$602.4 million to its shareholders through dividends (\$277.8 million) and buybacks (\$324.6 million) in 2019.
 - We are impressed by the company's growth-by-acquisition policy. To this end, in January the company entered into a definitive agreement to acquire Prime Distribution Services, a provider of consolidation services in North America, from Roadrunner Transportation. The buyout is expected to bring "capabilities and synergies" to C.H. Robinson's NAST business. Moreover, it acquired Italian logistics company — Dema Service in May 2019. The buyout is a notable move, strengthening the company's presence in Italy, which is believed to be one of the largest road transportation markets in Europe. Other notable recent acquisitions by C.H. Robinson include the purchase of Space Cargo in 2019 and Milgram & Company in 2018. These transactions have been contributing significantly to the company's top line.
 - Amid struggles with weak freight volumes, the company's debt-control measures are encouraging. Notably, C.H. Robinson's long-term debt as of Dec 31, 2019 was \$1,092.45 million compared with \$1,341.35 million at 2018 end.
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Last Earnings Report

Earnings Miss at C.H. Robinson in Q4

C.H. Robinson's fourth-quarter 2019 The company's earnings of 73 cents per share missed the Zacks Consensus Estimate of 98 cents. The bottom line also plunged 45.5% year over year. Results were hurt by the weak freight environment.

Total revenues came in at \$3,793.3 million, falling short of the Zacks Consensus Estimate of \$3804.8 million. Moreover, the top line fell 8.3% year over year. This downturn can be attributed to unfavorable pricing across most transportation service lines.

Total operating expenses decreased 3.5% year over year to \$442.06 million, primarily due to 11.9% decline in Personnel expenses. However, operating ratio (operating expenses as a percentage of net revenues) deteriorated to 76.4% from 64.2% in the year-ago quarter. Notably, lower the value of the metric the better.

The company returned \$137.3 million to its shareholders through a combination of cash dividends (\$69.9 million) and share repurchases (\$67.4 million). Capital expenditures totaled \$19.5 million in the quarter under review.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	-0.30%
EPS Surprise	-25.51%
Quarterly EPS	0.73
Annual EPS (TTM)	4.18

Segmental Results

At North American Surface Transportation (NAST), total revenues were \$2,788.55 million (down 8.6%) in the fourth quarter. This downside was due to weak pricing. Net revenues at the segment also dropped 23.2%. NAST results include those of Robinson Fresh transportation, which were previously reported under a separate segment.

Total revenues at Global Forwarding summed \$600.17 million, down 11.4%. Low pricing and contraction in volumes at the ocean and air units affected results. Net revenues at the segment also declined 9.6% despite The Space Cargo Group acquisition boosting results by 3 percentage points.

A historical presentation of the results on an enterprise basis is given below:

Transportation: The unit (comprising Truckload, Intermodal, Less-than-Truckload, Ocean, Air, Customs and Other logistics services) delivered net revenues of \$557.21 million in the quarter under consideration, down 19.1% from the prior-year figure.

Truckload net revenues declined 28.8% year over year to \$281.54 million with volumes remaining flat year over year. Net revenues at Less-than-Truckload (LTL) also dipped 3.2% year over year to \$113.61 million. However, LTL volumes grew 4.5% in the quarter.

At the Intermodal segment, net revenues declined 4.8% year over year to \$8.19 million as volumes fell 16%. Net revenues at the Ocean transportation segment decreased 10.6% year over year to \$73.48 million. The same at the air transportation segment dropped 15.7% year over year to \$25.94 million. Customs net revenues also slid 3.5% to \$22.93 million.

However, Other logistics services' net revenues inched up 3% year over year to \$31.52 million.

Sourcing: Net revenues at the segment dropped 13% to \$21.66 million.

Liquidity

The company exited the fourth quarter with cash and cash equivalents of \$447.86 million compared with \$378.62 million at the end of 2018. Long-term debt was \$1,092.45 million compared with \$1,341.35 million at 2018 end.

Outlook

For 2020, capital expenditures are anticipated in the \$60-\$70 million range with majority to be invested in technology. The company will try to ramp up productivity and increase levels of automation through the investments in technology. Over the next three years, it aims to reduce operating expenses by \$100 million across the enterprise. Meanwhile, headwinds pertaining to net revenue per load are anticipated to persist through the first half of 2020.

Recent News

Dividend Update — Feb 6, 2020

C.H. Robinson's board announced its regular quarterly cash dividend by a penny of 51 cents per share. The amount is payable on Mar 27, 2020 to shareholders of record as of Mar 6. The company has a track record of paying regular dividends for more than 25 years.

C.H. Robinson Set to Buy Prime Distribution Services — Jan 28, 2020

C.H. Robinson entered into a definitive agreement to acquire Prime Distribution Services from Roadrunner Transportation. The transaction valued at approximately \$225 million is subject to closing conditions and regulatory approvals.

The buyout is expected to bring "capabilities and synergies" to C.H. Robinson's NAST business. It is anticipated to be slightly accretive in 2020. Upon completion of the transaction, the company will integrate Prime into its NAST segment and the technology platform, Navisphere.

Valuation

C.H. Robinson shares are down 18.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 9.7% and 5.8% in a year's time, respectively. Over the past year, the S&P 500 index is up 22.6%

The stock is currently trading at 18.58X forward 12-month price-to-earnings, which compares to 18.92X for the Zacks sub-industry, 13.2X for the Zacks sector and 19.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.9X and as low as 15.53X, with a 5-year median of 18.65X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 15.91X forward 12-month earnings.

The table below shows summary valuation data for CHRW

Valuation Multiples - CHRW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.58	18.92	13.2	19.17
	5-Year High	26.9	25.39	17	19.34
	5-Year Low	15.53	9.18	10.48	15.18
	5-Year Median	18.65	20.04	13.22	17.46
EV/EBITDA TTM	Current	11.85	12.69	7.7	11.95
	5-Year High	17.11	21.45	11.08	12.85
	5-Year Low	10.49	9.69	6	8.49
	5-Year Median	12.56	12.79	7.41	10.66
P/S F12M	Current	1.8	1.18	1.13	3.55
	5-Year High	0.87	2.26	1.44	3.55
	5-Year Low	0.2	0.6	1.02	2.54
	5-Year Median	0.71	1.44	1.22	3

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (183 out of 255)



Top Peers

Expeditors International of Washington, Inc. (EXPD)	Neutral
Hub Group, Inc. (HUBG)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Ryder System, Inc. (R)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
FedEx Corporation (FDX)	Underperform
Landstar System, Inc. (LSTR)	Underperform
Schneider National, Inc. (SNDR)	Underperform

Industry Comparison Industry: Transportation - Services				Industry Peers		
	CHRW Underperform	X Industry	S&P 500	EXPD Neutral	JBHT Neutral	R Neutral
VGM Score	C	-	-	C	B	A
Market Cap	9.95 B	1.87 B	24.40 B	12.61 B	11.94 B	2.68 B
# of Analysts	12	2	13	5	10	6
Dividend Yield	2.77%	0.00%	1.75%	1.35%	0.96%	4.45%
Value Score	D	-	-	D	C	A
Cash/Price	0.05	0.06	0.04	0.10	0.00	0.03
EV/EBITDA	10.85	9.47	14.17	13.42	11.82	4.72
PEG Ratio	2.18	2.18	2.05	NA	1.32	NA
Price/Book (P/B)	5.96	2.87	3.31	5.72	5.27	1.08
Price/Cash Flow (P/CF)	14.69	8.53	13.63	19.01	11.59	1.53
P/E (F1)	19.62	17.18	19.08	20.16	19.87	19.75
Price/Sales (P/S)	0.65	0.71	2.67	1.51	1.30	0.30
Earnings Yield	5.10%	5.53%	5.24%	4.96%	5.03%	5.07%
Debt/Equity	0.65	0.36	0.71	0.14	0.57	2.75
Cash Flow (\$/share)	5.01	2.26	6.89	3.89	9.67	32.92
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	8.43%	10.50%	10.80%	12.96%	11.91%	-1.97%
Proj. EPS Growth (F1/F0)	-10.42%	16.73%	7.23%	5.76%	15.32%	140.41%
Curr. Cash Flow Growth	-11.01%	10.50%	9.51%	34.54%	-2.99%	16.19%
Hist. Cash Flow Growth (3-5 yrs)	5.98%	10.42%	8.55%	11.13%	9.02%	6.16%
Current Ratio	1.70	1.45	1.20	2.34	1.43	0.62
Debt/Capital	39.54%	28.97%	42.90%	12.43%	36.37%	73.32%
Net Margin	3.77%	1.22%	11.76%	7.56%	5.99%	1.55%
Return on Equity	34.67%	10.43%	16.98%	30.20%	25.65%	11.65%
Sales/Assets	3.28	1.24	0.54	2.34	1.70	0.64
Proj. Sales Growth (F1/F0)	-0.40%	3.00%	4.15%	2.75%	6.96%	1.50%
Momentum Score	F	-	-	D	F	D
Daily Price Chg	1.15%	0.00%	-0.11%	0.43%	-0.09%	-0.77%
1 Week Price Chg	-9.29%	-3.00%	-2.60%	-1.75%	-6.72%	-7.79%
4 Week Price Chg	-7.37%	0.93%	1.51%	-3.62%	-5.88%	-6.31%
12 Week Price Chg	-1.46%	1.31%	5.63%	-2.85%	-4.14%	-5.23%
52 Week Price Chg	-18.57%	3.68%	17.01%	3.68%	2.90%	-13.54%
20 Day Average Volume	1,715,450	75,304	1,961,054	1,527,868	932,622	703,518
(F1) EPS Est 1 week change	-2.62%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.75%	-0.37%	-0.00%	-1.45%	-4.65%	0.00%
(F1) EPS Est 12 week change	-14.68%	-0.91%	-0.16%	-1.06%	-6.30%	-12.26%
(Q1) EPS Est Mthly Chg	-19.82%	0.00%	0.00%	-0.41%	-8.98%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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