

CH Robinson(CHRW)

\$84.10 (As of 01/16/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

Akin to the past few quarters, C.H. Robinson's fourth-quarter 2019 performance might have been hurt by bleak revenues due to weak pricing and soft freight volumes. Results will be available on Jan 28. Notably, revenues declined 7.8% in the first nine months of 2019, due to volume softness. In the global forwarding market, the company witnessed air and ocean volume declines due to weak demand. Amid bleak freight scenario, excess truck capacity has been weighing on the company's truckload volumes. Due to these headwinds, shares of the company have underperformed its industry in a year. However, we are impressed with C.H. Robinson's efforts to reward its shareholders through dividends and buybacks. We are encouraged by the company's growth-by-acquisition policy too. The company's efforts to control debts are encouraging as well.

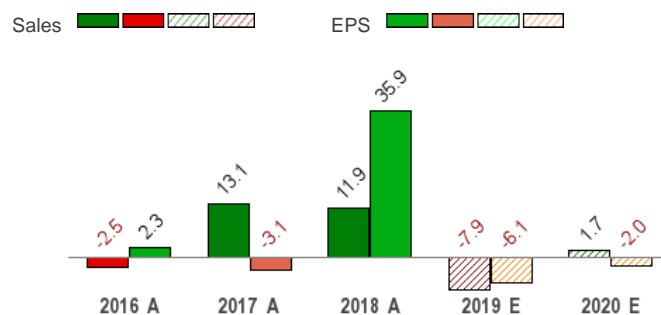
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.72 - \$74.12
20 Day Average Volume (sh)	1,097,285
Market Cap	\$11.4 B
YTD Price Change	7.5%
Beta	0.61
Dividend / Div Yld	\$2.04 / 2.4%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 26% (188 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.8%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	01/28/2020
Earnings ESP	-2.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,625 E	3,932 E	4,054 E	4,043 E	15,577 E
2019	3,751 A	3,909 A	3,856 A	3,827 E	15,318 E
2018	3,925 A	4,276 A	4,292 A	4,138 A	16,631 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.93 E	\$1.08 E	\$1.13 E	\$1.14 E	\$4.35 E
2019	\$1.16 A	\$1.22 A	\$1.07 A	\$0.99 E	\$4.44 E
2018	\$1.01 A	\$1.13 A	\$1.25 A	\$1.34 A	\$4.73 A

*Quarterly figures may not add up to annual.

P/E TTM	17.6
P/E F1	19.3
PEG F1	2.2
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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.

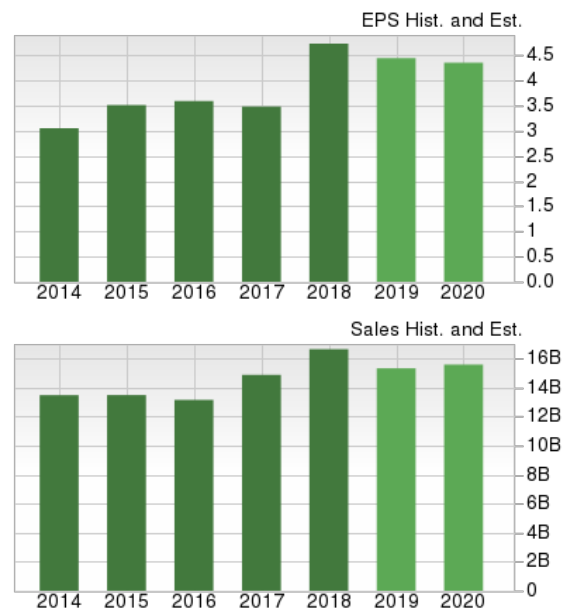
The **Global Forwarding** unit is responsible for providing global logistics services through an international network of offices in North America, Asia, Europe, Australia, and South America. It also contracts with independent agents worldwide. In a bid to strengthen its Global Forwarding business, C.H.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

- ▲ 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 has returned around \$600 million to shareholders in 2018, reflecting a year over year increase of 28.3%. Continuing its shareholder-friendly approach, the company returned \$472 million to its shareholders through dividends and buybacks in the first nine months of 2019.
- ▲ We are impressed by the company's growth-by-acquisition policy. To this end, the company 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. The Dema Service buyout apart, other notable recent acquisitions by C.H. Robinson include the purchase of Space Cargo in 2019 and Milgram & Company in 2018. These transactions are 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 Sep 30, 2019 was \$1.25 billion compared with \$1.34 billion at 2018 end.

We are impressed with the company's efforts to reward shareholders through dividends and share buybacks.

Reasons To Sell:

- ▼ Unfavorable pricing across most service lines is affecting the company's growth. Revenues declined 7.8% in the first nine months of 2019 due to volume softness. Weak freight environment due to the U.S.-China trade tensions contributed to this dismal performance. In the global forwarding market, the company witnessed air and ocean volume contractions due to soft demand as a result of the trade dispute. 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 not likely to improve dramatically unless the trade war is fully resolved. Amid the weak freight demand, excess truck capacity is weighing on the company's truckload volumes. With headwinds pertaining to truck pricing anticipated to persist in the near term, the company expects net revenue dollars per shipment to decline year over year through the first half of 2020.
- ▼ 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 anticipates capital expenditures between \$65 million and \$75 million for 2019 with the majority to 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.

High costs are limiting bottom-line growth at C.H. Robinson. The sluggish freight scenario is worrisome too.

Last Earnings Report

Earnings Miss at C.H. Robinson in Q3

C.H. Robinson's third-quarter 2019 earnings of \$1.07 per share missed the Zacks Consensus Estimate of \$1.16. The bottom line also declined 14.4% year over year. Results were hurt by truckload margin compression in North America.

Total revenues came in at \$3,856.1 million, falling short of the Zacks Consensus Estimate of \$3,925.1 million. Moreover, the top line fell 10.2% 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 \$432.35 million, primarily due to 4.4% decline in Personnel expenses. However, operating ratio (operating expenses as a percentage of net revenues) deteriorated to 68.3% from 64.6% in the year-ago quarter. Notably, lower the value of the metric the better.

The company returned \$135.9 million to its shareholders through a combination of cash dividends (\$68.9 million) and share repurchases (\$67 million). Capital expenditures totaled \$19.4 million in the quarter under review.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-1.76%
EPS Surprise	-7.76%
Quarterly EPS	1.07
Annual EPS (TTM)	4.79

Segmental Results

At North American Surface Transportation (NAST), total revenues were \$2.83 billion (down 12.4%) in the third quarter. This downside was due to weak pricing. Net revenues at the segment also dropped 13.2%. NAST results include those of Robinson Fresh transportation, which were previously reported under a separate segment.

Total revenues at Global Forwarding summed \$597.69 million, down 6.5%. Low pricing in ocean and air as well as contracted air volumes affected results. However, net revenues at the segment inched up 1.3%. The Space Cargo Group acquisition boosted results by 3.5 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 \$608.37 million in the quarter under consideration, down 9% from the prior-year figure.

Truckload net revenues declined 16% year over year to \$317.99 million with volumes contracting 4%. However, net revenues at Less-than-Truckload inched up 1.6% year over year to \$124.52 million. LTL volumes also grew 4% in the quarter.

At the Intermodal segment, net revenues declined 15% year over year to \$7.11 million as volumes fell 24%.

Net revenues at the Ocean transportation segment increased 4.1% year over year to \$77.88 million. But the same at the Air transportation division dropped 9.6% year over year to \$27.12 million. Meanwhile, customs net revenues rose 1.8% to \$23.72 million.

Other logistics services' net revenues dipped 3.7% year over year to \$30.03 million.

Sourcing: Net revenues at the segment slipped to \$25.06 million.

Liquidity

The company exited the third quarter with cash and cash equivalents of \$384.42 million compared with \$378.62 million at the end of 2018. Long-term debt was \$1.25 billion compared with \$1.34 billion at 2018 end.

2019 Outlook

C.H. Robinson now anticipates capital expenditures between \$65 and \$75 million for 2019 with the majority to be spent on technology. Previously, capital expenditures were expected to be \$80-\$90 million for the current year. Additionally, effective tax rate is estimated in the 23-24% band compared with 24-25% expected earlier. Amid the sluggish freight environment, the company expects an oversupply of capacity over the next few quarters in comparison to the available shipments.

Recent News

Dividend Hike — Dec 6, 2019

C.H. Robinson's board announced an increase in its quarterly cash dividend by a penny to 51 cents per share (or \$2.04 annually). The amount is payable on Dec 31, 2019 to shareholders of record as of Dec 16. The company has a track record of paying regular dividends for more than 25 years.

Valuation

C.H. Robinson shares are down 5.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 9.4% and 9.8% in a year's time, respectively. Over the past year, the S&P 500 index is up 22.3%

The stock is currently trading at 19.29X forward 12-month price-to-earnings, which compares to 19.36X for the Zacks sub-industry, 13.17X for the Zacks sector and 18.97X 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 18.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 20.18X 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 F 12M	Current	19.29	19.36	13.17	18.97
	5-Year High	26.9	25.39	16.98	19.34
	5-Year Low	15.53	9.18	10.46	15.17
	5-Year Median	18.69	20.13	13.11	17.44
EV/EBITDA TTM	Current	11.61	13.06	7.9	12.12
	5-Year High	17.11	21.45	11.1	12.86
	5-Year Low	10.49	9.69	5.98	8.48
	5-Year Median	12.57	12.78	7.41	10.67
P/S F 12M	Current	0.73	1.58	1.14	3.53
	5-Year High	0.87	2.26	1.44	3.53
	5-Year Low	0.2	0.6	1.03	2.54
	5-Year Median	0.71	1.44	1.23	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Services				Industry Peers		
	CHRW Neutral	X Industry	S&P 500	EXPD Neutral	JBHT Neutral	R Underperform
VGM Score	C	-	-	B	A	A
Market Cap	11.37 B	1.87 B	24.61 B	13.85 B	12.76 B	2.98 B
# of Analysts	10	2	13	5	7	6
Dividend Yield	2.43%	0.00%	1.74%	1.23%	0.87%	4.00%
Value Score	C	-	-	D	C	A
Cash/Price	0.04	0.06	0.04	0.09	0.01	0.03
EV/EBITDA	12.53	9.07	14.24	14.84	12.52	4.87
PEG Ratio	2.11	1.98	2.07	NA	1.36	NA
Price/Book (P/B)	6.80	2.84	3.38	6.29	5.82	1.20
Price/Cash Flow (P/CF)	15.19	8.42	13.75	20.88	12.25	1.70
P/E (F1)	19.02	18.82	19.09	21.83	20.43	21.96
Price/Sales (P/S)	0.73	0.77	2.68	1.66	1.41	0.34
Earnings Yield	5.17%	5.17%	5.24%	4.59%	4.89%	4.56%
Debt/Equity	0.75	0.34	0.72	0.14	0.59	2.75
Cash Flow (\$/share)	5.54	2.25	6.94	3.89	9.77	32.92
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	9.22%	12.57%	10.56%	12.96%	12.15%	-1.97%
Proj. EPS Growth (F1/F0)	-2.01%	16.87%	7.57%	5.25%	8.70%	140.41%
Curr. Cash Flow Growth	29.95%	11.78%	14.73%	34.54%	33.00%	16.19%
Hist. Cash Flow Growth (3-5 yrs)	9.99%	10.51%	9.00%	11.13%	12.27%	6.16%
Current Ratio	1.87	1.44	1.24	2.34	1.29	0.62
Debt/Capital	42.82%	26.54%	42.99%	12.43%	37.09%	73.32%
Net Margin	4.25%	1.22%	11.14%	7.56%	5.46%	1.55%
Return on Equity	40.43%	11.12%	17.16%	30.20%	28.45%	11.65%
Sales/Assets	3.39	1.28	0.55	2.34	1.70	0.64
Proj. Sales Growth (F1/F0)	1.69%	3.69%	4.16%	2.94%	6.92%	1.50%
Momentum Score	D	-	-	B	D	A
Daily Price Chg	0.72%	0.03%	0.89%	2.71%	0.61%	-0.09%
1 Week Price Chg	3.06%	0.01%	0.39%	-0.85%	1.75%	-1.36%
4 Week Price Chg	9.61%	4.20%	2.65%	6.24%	3.67%	6.29%
12 Week Price Chg	-4.08%	7.70%	7.55%	9.31%	3.46%	4.79%
52 Week Price Chg	-2.25%	14.84%	22.12%	19.72%	19.86%	3.17%
20 Day Average Volume	1,097,285	74,276	1,536,375	820,669	701,918	574,584
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.88%	0.00%
(F1) EPS Est 4 week change	-0.25%	0.00%	0.00%	0.43%	-1.66%	1.12%
(F1) EPS Est 12 week change	-11.19%	-2.41%	-0.40%	-0.56%	-3.40%	-56.38%
(Q1) EPS Est Mthly Chg	-2.45%	0.00%	0.00%	-0.81%	0.63%	-30.16%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	B
Momentum Score	D
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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