

CH Robinson(CHRW)

\$77.90 (As of 05/25/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Shares of C.H. Robinson have underperformed its industry in a year, mainly due to weak volumes as a result of the freight softness. The coronavirus outbreak has worsened the freight scenario. The company is seeing low volumes across several of its segments. Amid the downturn, high capital expenditures may further impede growth. Despite adversities, the company continues to project capital expenses of \$60-\$70 million for 2020. However, the company's growth-by-acquisition policy holds promise and should continue to support growth. Notably, the company's NAST division is benefiting from the Prime Distribution Services acquisition carried out in March. Additionally, we are appreciative of the company's commitment to continue rewarding shareholders through dividends (paid dividends worth \$69.9 million in the first quarter) despite odds.

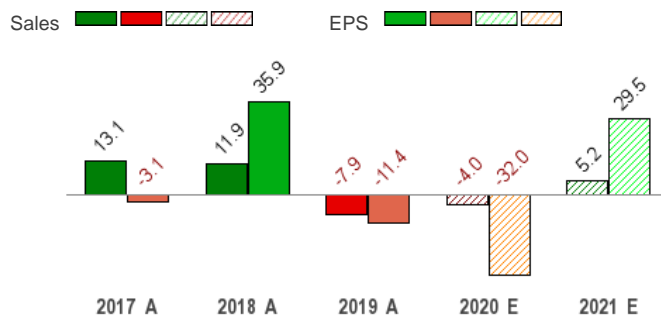
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.23 - \$57.25
20 Day Average Volume (sh)	2,043,050
Market Cap	\$10.5 B
YTD Price Change	-0.4%
Beta	0.54
Dividend / Div Yld	\$2.04 / 2.6%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 24% (187 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-19.7%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	-15.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	21.7
P/E F1	27.3
PEG F1	3.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,936 E	3,808 E	3,939 E	4,093 E	15,462 E
2020	3,805 A	3,459 E	3,622 E	3,779 E	14,702 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	\$0.75 E	\$1.00 E	\$1.15 E	\$1.09 E	\$3.69 E
2020	\$0.57 A	\$0.60 E	\$0.81 E	\$0.86 E	\$2.85 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 05/25/2020. The reports text is as of 05/26/2020.

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 2019, the company was responsible for handling approximately 18 million shipments and served more than 119,000 customers. C.H. Robinson operates through a network of offices in North America, Europe, Asia, Oceania, and South America.

In 2019, the company utilized approximately 78,000 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:

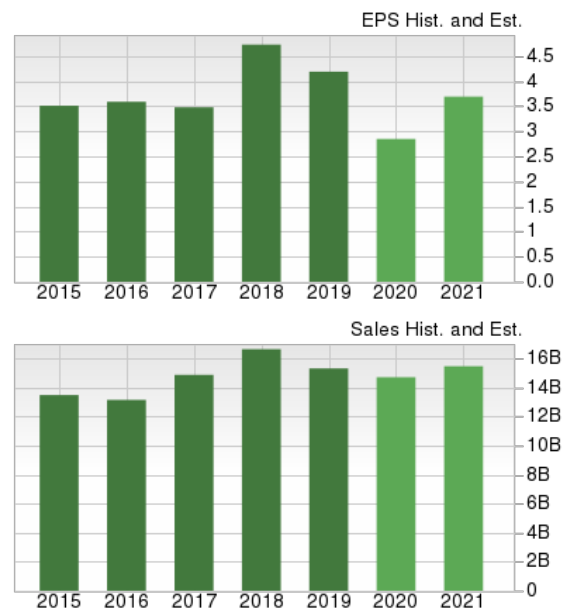
NAST offers freight transportation services across North America through a network of offices in the United States, Canada, and Mexico. In May 2019, C.H. Robinson purchased Dema Service which is integrated into its European Surface Transportation division and Navisphere, the single global technology 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 2019, the NAST and Global Forwarding units contributed 73.7% and 15.2% respectively to total revenues of \$15.31 billion. The All Other and Corporate unit, which comprises of the company's non-reportable segments, like Managed Services, generated the remaining portion of revenues.

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



Reasons To Buy:

▲ Although, C.H. Robinson has temporarily suspended share buybacks to address the coronavirus situation, the company will continue rewarding investors with dividend payments. It has paid dividends for more than 25 years now. During the first quarter of 2020, the company returned \$69.9 million to shareholders in the form of dividends. In 2019, it paid dividends worth \$277.8 million to shareholders.

The company's growth-by-acquisition policy should drive the top line going forward.

▲ We are impressed by the company's growth-by-acquisition policy. To this end, in March the company acquired Prime Distribution Services, a provider of consolidation services in North America, from Roadrunner Transportation. The company's NAST business is benefiting from the buyout through expanded capabilities. 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.

▲ Despite coronavirus-led operational disruptions, the company's top line rose year over year owing to higher truckload and less than truckload (LTL) volumes. Additionally, we are impressed by the company's cost-control measures. Total operating expenses increased only marginally in the first quarter with decline in personnel expenses.

Reasons To Sell:

- ▼ The already weak volume scenario due to freight sluggishness has been aggravated by the coronavirus crisis. The company is seeing softness in truckload volumes due to weak freight market conditions. The company is also witnessing the impact of the global health peril on its manufacturing, automotive, chemical and energy volumes. At the Global Forwarding segment, contraction in volumes at the ocean and air units, is weighing on revenues.
- ▼ Despite the coronavirus-related headwinds, 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 (Capital expenditures totaled \$14.7 million in the first quarter), 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.
- ▼ The company's total debt to total capital ratio stood at 0.47 at the end of the first quarter of 2020, comparing unfavorably to the reading of 0.42 at the end of the fourth quarter of 2019. The increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise. Moreover, the cash and cash equivalents at C.H. Robinson exited the first quarter with cash and cash equivalents of \$295 million, way below the short term debt figure of \$373 million, implying that not the company doesn't have enough cash to meet even its short-term debt burden.

The coronavirus crisis is weighing on volumes across several verticals.

Last Earnings Report

Earnings Miss at C.H. Robinson in Q1

C.H. Robinson's earnings of 57 cents per share missed the Zacks Consensus Estimate of 71 cents. The bottom line also plunged 50.9% year over year.

However, total revenues of \$3,805 million surpassed the Zacks Consensus Estimate of \$3554.7 million and also increased 1.4% year over year. This upside was led by higher truckload and less than truckload (LTL) volumes.

Total operating expenses inched up 0.9% year over year to \$458.51 million, primarily due to a 12.4% increase in selling, general and administrative expenses. Consequently, operating ratio (operating expenses as a percentage of net revenues) deteriorated to 80.7% from 66.9% in the year-ago quarter. With respect to this metric, the lower the value, the better.

The company returned \$152.2 million to shareholders through a combination of cash dividends (\$69.9 million) and share repurchases (\$82.4 million). Capital expenditures totaled \$14.7 million in the quarter under review. Full-year capital expenses are expected in the range of \$60-\$70 million, with the maximum reserved for technology spends.

Segmental Results

At North American Surface Transportation (NAST), total revenues were \$2,823.75 million (up 1%) in the first quarter. However, net revenues at the segment dropped 23.4% despite the Prime Distribution Services acquisition contributing 1 percentage point to segmental results. NAST results include Robinson Fresh transportation, which was previously reported under a separate segment.

Total revenues at Global Forwarding summed \$530.38 million, down 1.3% year over year. Contraction in volumes at the ocean and air units affected results. Meanwhile, net revenues at the segment climbed 0.8% with The Space Cargo Group acquisition boosting results by 2 percentage points.

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

Transportation: The unit (comprising Truckload, Intermodal, LTL, Ocean, Air, Customs and Other logistics services) delivered net revenues of \$542 million in the quarter under consideration, down 16.8% from the prior-year figure.

Truckload net revenues declined 29.9% year over year to \$264.93 million despite volumes increasing 7.5% year over year. LTL net revenues also dropped 2% year over year to \$113.91 million. However, LTL volumes grew 7.5% in the quarter.

At the Intermodal segment, net revenues increased 24.3% year over year to \$7.55 million as volumes rose 8%. Net revenues at the Ocean transportation segment declined 2.3% year over year to \$69.9 million. The same at the air transportation segment increased 2.7% to \$28.34 million. Meanwhile, customs net revenues slid 3.1% to \$21.19 million.

However, Other logistics services' net revenues rose 19.1% to \$36.18 million.

Sourcing: Net revenues at the segment slipped 4.3% to \$25.95 million.

Liquidity

The company exited the first quarter with cash and cash equivalents of \$294.57 million compared with \$447.86 million at the end of 2019. Liquidity at the end of the quarter was more than \$1.2 billion. Long-term debt was \$1,092.66 million compared with \$1,092.45 million at 2019-end.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	7.04%
EPS Surprise	-19.72%
Quarterly EPS	0.57
Annual EPS (TTM)	3.59

Recent News

Dividend Update – May 8, 2020

C.H. Robinson's board approved a quarterly cash dividend of 51 cents per share, payable to shareholders on Jun 30, 2020 of record as of Jun 5.

C.H. Robinson Acquires Prime Distribution Services — Mar 2, 2020

C.H. Robinson completed the acquisition of Prime Distribution Services from Roadrunner Transportation. The buyout, valued at \$225 million, is expected to bring "capabilities and synergies" to C.H. Robinson's NAST business. It is anticipated to be slightly accretive in 2020. The company will integrate Prime into its NAST segment and the technology platform, Navisphere.

Valuation

C.H. Robinson shares are down 0.4% and 2.3% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 11.4% and 23% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 0.2% and 17.5% respectively.

The S&P 500 index is down 8.1% in the year-to-date period but up 4.5% in the past year.

The stock is currently trading at 24.44X forward 12-month price-to-earnings, which compares to 28.34X for the Zacks sub-industry, 30.58X for the Zacks sector and 21.5X 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 18.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 26.05X 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	24.44	28.34	30.58	21.5
	5-Year High	26.9	28.34	30.58	21.5
	5-Year Low	15.53	9.18	10.48	15.23
	5-Year Median	18.6	19.93	13.18	17.49
EV/EBITDA TTM	Current	14.96	12.86	7.07	10.93
	5-Year High	17.11	21.68	11.16	12.86
	5-Year Low	10.02	8.93	5.44	8.26
	5-Year Median	12.51	12.7	7.34	10.79
P/S F 12M	Current	0.7	1.45	1.09	3.33
	5-Year High	0.87	2.26	1.42	3.44
	5-Year Low	0.2	0.6	0.84	2.53
	5-Year Median	0.71	1.44	1.2	3.01

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (187 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Expeditors International of Washington, Inc. (EXPD)	Neutral	4
FedEx Corporation (FDX)	Neutral	4
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Landstar System, Inc. (LSTR)	Neutral	4
Ryder System, Inc. (R)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	3
Hub Group, Inc. (HUBG)	Underperform	5
XPO Logistics, Inc. (XPO)	Underperform	5

Industry Comparison Industry: Transportation - Services				Industry Peers		
	CHRW	X Industry	S&P 500	EXPD	JBHT	R
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	D	-	-	C	B	A
Market Cap	10.48 B	934.20 M	20.16 B	11.99 B	11.44 B	1.67 B
# of Analysts	11	3	14	5	10	6
Dividend Yield	2.62%	0.00%	2.11%	1.39%	1.00%	7.20%
Value Score	B	-	-	C	B	A
Cash/Price	0.03	0.16	0.07	0.09	0.00	0.25
EV/EBITDA	13.38	7.12	12.07	13.22	10.28	3.94
PEG Ratio	3.06	3.04	2.72	NA	1.69	NA
Price/Book (P/B)	6.60	2.30	2.77	5.89	5.01	0.75
Price/Cash Flow (P/CF)	15.54	6.14	10.95	19.13	11.22	0.74
P/E (F1)	27.55	24.52	20.22	24.05	25.38	NA
Price/Sales (P/S)	0.68	0.61	2.12	1.49	1.22	0.19
Earnings Yield	3.66%	3.38%	4.71%	4.16%	3.94%	-2.70%
Debt/Equity	0.69	0.47	0.76	0.15	0.57	3.26
Cash Flow (\$/share)	5.01	1.92	6.96	3.77	9.67	41.99
Growth Score	D	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	6.73%	12.07%	10.87%	12.05%	11.64%	-6.34%
Proj. EPS Growth (F1/F0)	-32.02%	-45.68%	-10.31%	-13.16%	-12.60%	-182.67%
Curr. Cash Flow Growth	-11.01%	-4.59%	5.46%	-4.59%	-2.99%	25.93%
Hist. Cash Flow Growth (3-5 yrs)	5.98%	11.86%	8.55%	8.52%	9.02%	9.98%
Current Ratio	1.44	1.47	1.29	2.26	1.54	0.85
Debt/Capital	40.77%	35.16%	44.54%	13.34%	36.34%	76.55%
Net Margin	3.21%	2.52%	10.54%	7.12%	5.71%	-2.01%
Return on Equity	29.94%	7.96%	16.27%	27.00%	24.76%	5.32%
Sales/Assets	3.27	1.24	0.54	2.21	1.73	0.62
Proj. Sales Growth (F1/F0)	-3.97%	-2.78%	-2.49%	-3.31%	-0.41%	-4.26%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	-0.06%	0.00%	0.12%	-0.18%	2.21%	-0.73%
1 Week Price Chg	-1.76%	-3.61%	-4.56%	-4.44%	-4.95%	-15.75%
4 Week Price Chg	10.46%	7.36%	5.28%	2.62%	7.52%	12.56%
12 Week Price Chg	11.43%	-11.88%	-8.60%	4.24%	12.06%	-15.72%
52 Week Price Chg	-3.57%	-19.67%	-6.15%	0.53%	19.15%	-42.84%
20 Day Average Volume	2,043,050	130,342	2,645,192	1,512,965	682,303	1,155,262
(F1) EPS Est 1 week change	-1.07%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-15.21%	-14.94%	-3.80%	-11.62%	-3.72%	-965.96%
(F1) EPS Est 12 week change	-23.01%	-45.27%	-16.57%	-15.18%	-23.73%	-168.16%
(Q1) EPS Est Mthly Chg	-21.05%	-26.77%	-7.64%	-13.91%	0.00%	-28.72%

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	B
Growth Score	D
Momentum Score	F
VGM Score	D

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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