

CH Robinson(CHRW)

\$98.26 (As of 08/27/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Weak freight-market conditions due to coronavirus-led global economic slowdown are weighing on C.H. Robinson's volumes. With NAST net revenues declining 22.7% in the first half of 2020, the company's top line dipped 3%. Deterioration in the operating ratio is also concerning. Despite coronavirus-related woes, the company is focused on making investments in technology. With the company already battling low earnings, substantial capital expenses may further hurt the bottom line. However, shares of the company have outperformed its industry so far this year partly due to cost-saving initiatives. The company expects to generate cost savings of \$80 million in 2020. C.H. Robinson's commitment to continue rewarding shareholders with dividends despite odds is appreciable. Signs of gradual recovery in the freight market are also a positive.

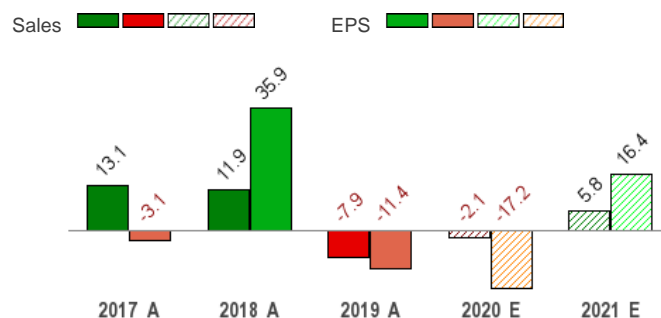
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.22 - \$57.25
20 Day Average Volume (sh)	1,198,393
Market Cap	\$13.2 B
YTD Price Change	25.7%
Beta	0.64
Dividend / Div Yld	\$2.04 / 2.1%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 25% (189 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	96.3%
Last Sales Surprise	6.9%
EPS F1 Est- 4 week change	21.3%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	28.7
P/E F1	28.3
PEG F1	3.2
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,884 E	4,168 E	4,187 E	4,151 E	15,856 E
2020	3,805 A	3,628 A	3,768 E	3,765 E	14,993 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	\$0.79 E	\$1.13 E	\$1.00 E	\$0.94 E	\$4.04 E
2020	\$0.57 A	\$1.06 A	\$0.93 E	\$0.88 E	\$3.47 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 08/27/2020. The reports text is as of 08/28/2020.

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:

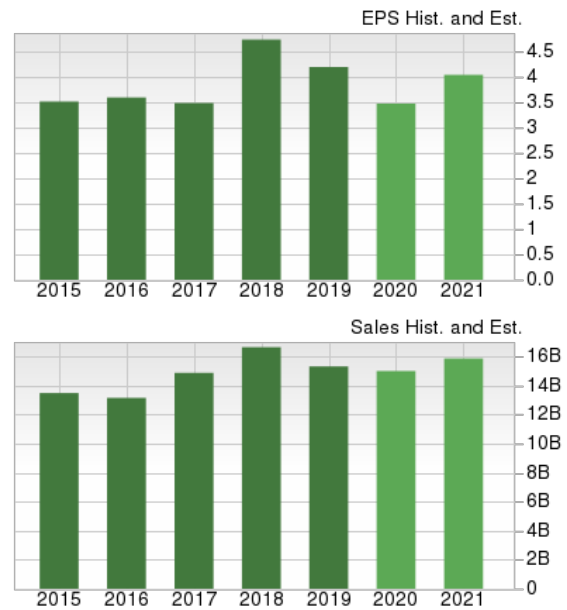
NAST offers freight transportation services across North America through a network of offices in the United States, Canada, and Mexico. In March 2020, C.H. Robinson acquired Prime Distribution Services. Previously, in 2019, the company acquired purchased Dema Service.

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 half of 2020, the company returned \$137.1 million to shareholders in the form of dividends. In 2019, it paid dividends worth \$277.8 million to shareholders. The company expects to resume share repurchases from the fourth quarter of 2020.
- ▲ 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 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.
- ▲ The company's short-term cost-reduction initiatives to combat the coronavirus-related volume softness are encouraging. These cost-cutting efforts such as furloughs and workforce reductions, temporary pay cuts for some executives and Board members have helped the company generate savings of approximately \$40 million in the second quarter. With greater cost-cuts, C.H. Robinson expects to generate cost savings of approximately \$80 million in 2020, higher than its previous forecast of \$60 million savings for 2020.
- ▲ With gradual increase in economic activities, signs of recovery in the freight market are a boon to C.H. Robinson. Moreover, at the end of the second quarter the company did not have any current debt, while its cash and cash equivalents stood at \$362.24 million at the end of the same period.

Signs of recovery in the freight market is encouraging. Additionally, cost-reduction initiatives are generating substantial savings for the company.

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. At the NAST division, net revenues declined 22.7% year over year in the first six months of 2020 with truckload and less than truckload (LTL) net revenues decreasing 27.5% and 7.7% respectively. With NAST being the primary revenue generator, the company's top line dipped 3% year over year in the first half of 2020. Given the sluggishness in the global economy, volumes are expected to remain low at least in the near term, thus keeping the top line under pressure.
- ▼ Thanks to weak revenues, the company's operating ratio (operating expenses as a percentage of net revenues) deteriorated to 74.8% in the first half of 2020 from 67.1% in the year-ago period. Lower the value of this metric, the better. Persistent below-par performance of this key efficiency measure is a setback to the company.
- ▼ 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 \$25 million in the first half of 2020), projects the same to be in the low end of \$60-\$70 million for 2020. Majority of the amount will be spent on technology. Its decision to invest \$1 billion in technology in the period between 2019 and 2023 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 coronavirus crisis is weighing on volumes across several verticals.

Last Earnings Report

Earnings Beat at C.H. Robinson in Q2

C.H. Robinson's second-quarter 2020 earnings of \$1.06 per share surpassed the Zacks Consensus Estimate of 54 cents. However, the bottom line declined 13.1% year over year.

Although total revenues of \$3,627.8 million outperformed the Zacks Consensus Estimate of \$3,394.4 million, it decreased 7.2% year over year. This downside was due to lower pricing in truckload and less than truckload ("LTL") services.

Total operating expenses fell 9% year over year to \$425.67 million, primarily due to short-term cost reductions of \$40 million. However, operating ratio (operating expenses as a percentage of net revenues) deteriorated to 69.3% from 67.3% in the year-ago quarter. With respect to this metric, lower the value, the better.

The company returned \$68.4 million to its shareholders through a combination of cash dividends (\$67.2 million) and share repurchases (\$1.2 million). Capital expenditures totaled \$10.3 million in the quarter under review. Full-year capital expenses are expected in the low end of \$60-\$70 million, with the maximum reserved for technology spends.

Segmental Results

At North American Surface Transportation ("NAST"), total revenues were 2,475.29 million (down 13.8%) in the second quarter. Segmental revenues declined due to low pricing. Moreover, net revenues in the segment dropped 22% despite the Prime Distribution Services acquisition contributing 3 percentage points to segmental results. NAST results include Robinson Fresh transportation, which was previously reported under a separate segment.

Total revenues at Global Forwarding summed \$707.82 million, up 19.5% year over year. Higher pricing in air, increased charter flights and larger shipment sizes boosted results. Net revenues at the segment climbed 14.8% year over year.

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 \$586.02 million in the quarter under consideration, down 12% from the prior-year figure.

Truckload net revenues declined 25% year over year to \$278.37 million, with volumes decreasing 4.5% year over year. LTL net revenues also dropped 13% year over year to \$106.96 million with volumes slipping 2% in the quarter.

At the Intermodal segment, net revenues increased 23.3% year over year to \$7.77 million. Intermodal volumes were flat year over year. Net revenues at the Ocean transportation segment declined 7.7% year over year to \$78.85 million. The same at the air transportation segment surged approximately 100% to \$52.41 million. Meanwhile, customs net revenues slid 16.5% to \$19.46 million.

However, Other logistics services' net revenues rose 40.4% to \$42.21 million.

Sourcing: Net revenues at the segment slipped 4% to \$28.43 million.

Liquidity

This company exited the second quarter with cash and cash equivalents of \$362.24 million compared with \$447.86 million at the end of 2019. Liquidity at the end of the quarter was \$1.6 billion. Long-term debt was 1,092.87 million, compared to \$1,092.45 million at 2019-end.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	6.88%
EPS Surprise	96.30%
Quarterly EPS	1.06
Annual EPS (TTM)	3.43

Recent News

Dividend Update — Aug 06, 2020

C.H. Robinson's board declared a quarterly cash dividend of 51 cents per share (annually \$2.04). The amount is payable to shareholders on Sep 30, 2020, of record as of Sep 04.

Microsoft Partnership to Meet Supply-Chain Demand — Jul 14, 2020

C.H. Robinson has extended its partnership with Microsoft to digitally transform supply chains of the future. The alliance aims to meet evolving demand of global supply chains through a combination of C.H. Robinson's Navisphere platform, Microsoft Azure and Azure IoT.

Valuation

C.H. Robinson shares are up 25.7% and 16.9% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the sector are up 6.3% and 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 17.8% and 8%, respectively.

The S&P 500 Index is up 8.2% and 19.5% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 25.58X forward 12-month price-to-earnings, which compares to 30.7X for the Zacks sub-industry, 29.37X for the Zacks sector and 23.37X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 28.97X and as low as 15.53X, with a 5-year median of 17.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$103 price target reflects 26.81X 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	25.58	30.7	29.37	23.37
	5-Year High	28.97	32.29	31.58	23.37
	5-Year Low	15.53	9.22	10.49	15.25
	5-Year Median	17.58	20.03	13.5	17.58
EV/EBITDA TTM	Current	18.97	14.85	10.18	13.27
	5-Year High	18.97	21.76	11.09	13.27
	5-Year Low	10.02	8.97	5.38	8.25
	5-Year Median	12.6	12.85	7.26	10.92
P/S F 12M	Current	0.85	1.77	1.38	3.82
	5-Year High	0.87	2.28	1.41	3.82
	5-Year Low	0.2	0.61	0.85	2.53
	5-Year Median	0.72	1.5	1.2	3.05

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (189 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Expeditors International of Washington, Inc. (EXPD)	Outperform	2
Landstar System, Inc. (LSTR)	Outperform	1
FedEx Corporation (FDX)	Neutral	3
Hub Group, Inc. (HUBG)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Ryder System, Inc. (R)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	2
XPO Logistics, Inc. (XPO)	Neutral	3

Industry Comparison Industry: Transportation - Services				Industry Peers		
	CHRW	X Industry	S&P 500	EXPD	JBHT	R
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	B	A	B
Market Cap	13.25 B	1.52 B	23.67 B	14.67 B	15.07 B	2.24 B
# of Analysts	12	3	14	5	10	6
Dividend Yield	2.08%	0.00%	1.64%	1.19%	0.76%	5.38%
Value Score	B	-	-	B	B	A
Cash/Price	0.03	0.10	0.07	0.08	0.02	0.39
EV/EBITDA	16.59	7.80	13.33	15.93	13.04	3.72
PEG Ratio	3.14	3.58	3.05	NA	2.02	NA
Price/Book (P/B)	7.77	2.54	3.18	6.74	6.30	1.04
Price/Cash Flow (P/CF)	19.62	8.53	12.81	23.24	14.77	0.99
P/E (F1)	28.24	25.87	21.68	24.97	30.26	NA
Price/Sales (P/S)	0.88	0.88	2.50	1.71	1.63	0.26
Earnings Yield	3.53%	2.89%	4.43%	4.00%	3.31%	-6.94%
Debt/Equity	0.64	0.64	0.74	0.00	0.55	3.10
Cash Flow (\$/share)	5.01	1.96	6.94	3.77	9.67	41.99
Growth Score	A	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	4.99%	7.94%	10.41%	12.12%	10.97%	-23.52%
Proj. EPS Growth (F1/F0)	-17.20%	-53.60%	-4.94%	1.57%	-3.50%	-386.31%
Curr. Cash Flow Growth	-11.01%	-0.60%	5.22%	-4.59%	-2.99%	25.93%
Hist. Cash Flow Growth (3-5 yrs)	5.98%	13.37%	8.50%	8.52%	9.02%	9.98%
Current Ratio	1.56	1.39	1.35	2.22	1.59	0.77
Debt/Capital	39.07%	40.94%	43.86%	0.00%	35.35%	75.59%
Net Margin	3.10%	0.82%	10.25%	7.02%	5.65%	-3.84%
Return on Equity	28.22%	7.26%	14.66%	28.08%	22.88%	0.29%
Sales/Assets	3.18	1.08	0.50	2.34	1.70	0.59
Proj. Sales Growth (F1/F0)	-2.07%	-1.31%	-1.43%	8.59%	-0.22%	-7.69%
Momentum Score	B	-	-	C	B	F
Daily Price Chg	1.01%	0.00%	0.43%	-0.06%	0.42%	1.09%
1 Week Price Chg	1.48%	-0.01%	-1.45%	0.22%	3.08%	0.08%
4 Week Price Chg	5.02%	8.37%	3.75%	5.40%	10.66%	10.66%
12 Week Price Chg	19.39%	13.61%	3.95%	12.74%	21.43%	4.78%
52 Week Price Chg	16.81%	14.08%	2.75%	22.34%	33.58%	-13.03%
20 Day Average Volume	1,198,393	127,368	1,887,168	1,187,919	720,530	686,886
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	21.34%	4.02%	0.79%	15.80%	1.83%	-24.37%
(F1) EPS Est 12 week change	21.80%	13.70%	3.43%	16.96%	10.46%	-46.04%
(Q1) EPS Est Mthly Chg	13.88%	13.88%	0.00%	12.05%	1.05%	-293.10%

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	A
Momentum Score	B
VGM Score	A

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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