

Expeditors(EXPD)

\$62.02 (As of 03/12/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: D

Summary

Shares of Expeditors have underperformed its industry in a year's time, mainly due to declining revenues in the Airfreight Services segment (2019 revenues down 10.5%). The dismal performance of this key unit was caused by the Sino-U.S. trade tensions as the company has significant exposure in China. The slowdown in trade to and from China resulted in dwindling volumes, thereby denting Expeditors' performance. Unfavorable pricing is also a major headwind for the company. High operating expenses add to the woes. The coronavirus outbreak in China is an added bane. The negativity surrounding the stock is highlighted by the fact that the Zacks Consensus Estimate for current-year earnings has been revised downward over the past 60 days. However, we are impressed by Expeditors' efforts to reward shareholders through dividends and buybacks.

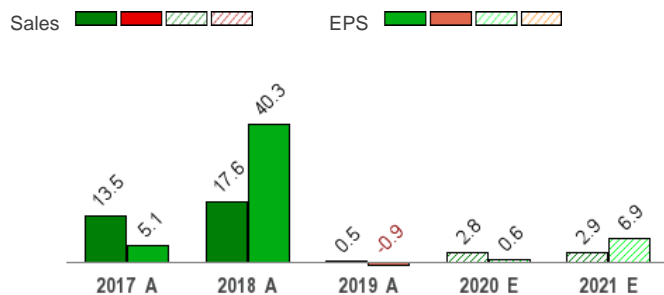
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.64 - \$61.98
20 Day Average Volume (sh)	2,393,271
Market Cap	\$10.5 B
YTD Price Change	-20.5%
Beta	0.86
Dividend / Div Yld	\$1.00 / 1.6%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 24% (192 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	-6.6%
EPS F1 Est- 4 week change	-5.5%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	18.2
P/E F1	17.9
PEG F1	NA
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,644 E
2020	1,936 E	2,096 E	2,184 E	2,170 E	8,401 E
2019	2,020 A	2,036 A	2,075 A	2,045 A	8,175 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.71 E
2020	\$0.71 E	\$0.81 E	\$0.94 E	\$0.92 E	\$3.47 E
2019	\$0.80 A	\$0.88 A	\$0.92 A	\$0.81 A	\$3.45 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 03/12/2020. The reports text is as of 03/13/2020.

Overview

Expeditors International of Washington Inc. is a leading third-party logistics (3PL) provider. The company, based in Seattle, WA, is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight.

As of Dec 31, 2019, Expeditors operated 176 district offices across the globe. Out of them, 70 were in Americas, 21 in North Asia, 16 in South Asia, 45 in Europe and 24 in areas covering Middle East, Africa and India.

The company also has branch offices, aligned with and dependent on a district office. Furthermore, the company has contracts with independent agents for providing services.

Expeditors, whose fiscal year coincides with the calendar year, has the following three reporting segments:

Airfreight Services (accounted for 36% of 2019 revenues) – Expeditors typically acts either as a freight consolidator, or as an agent for the airline carrying the shipment.

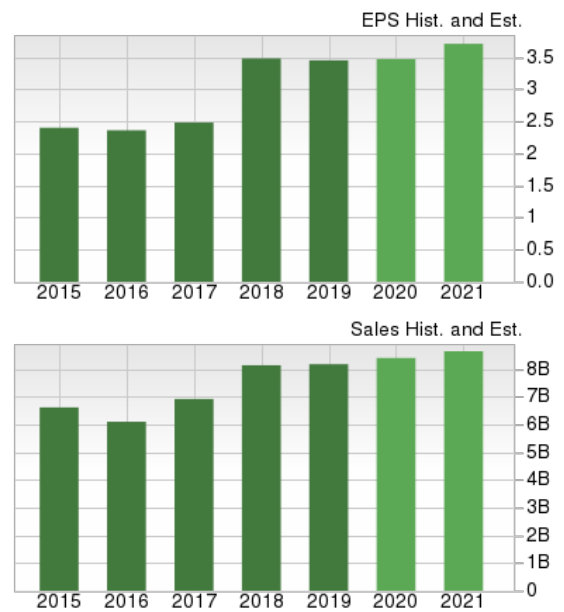
The company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point.

Expeditors also acts as a freight forwarder, whereby it receives and forwards individual, unconsolidated shipments and arranges the transportation with the concerned airline.

Ocean Freight and Ocean Services (27%) – Expeditors operates Expeditors International Ocean (EIO), an Ocean Transportation Intermediary, sometimes referred to as a Non-Vessel Operating Common Carrier specializing in ocean freight consolidation from Asia to the United States.

The company's revenues as an ocean freight forwarder are also derived from commissions paid by the carrier and revenues from fees charged to customers for ancillary services, which the company may provide. The company does not own vessels, nor does it physically handle the cargo.

Customs Brokerage and Other Services (37%) – As a customs broker, the company assists importers to clear shipments through customs by preparing the necessary documents, calculating and providing for payment of duties and other taxes on behalf of the importer.



Reasons To Sell:

- ▼ Expeditors' rising operating expenses are a concern. Operating expenses escalated 18% year over year in 2018 due to higher fuel costs and labor expenses among other items. Despite the moderation in fuel prices, operating expenses increased in 2019 as well. Operating expenses are likely to be high in the March-end quarter as well mainly due to higher labor costs.
- ▼ The trade war-related tensions between the United States and China has proved to be a huge setback for Expeditors. Given the company's exposure in China (26% of 2019 revenues came from China exports and imports) it is suffering because of low volume of shipments. Notably, revenues from North Asia declined significantly in 2019. In fact, revenues from Airfreight Services, revenues declined 10.5% in 2019 mainly due to weakness pertaining to its Chinese operations. Although the situation might improve slightly following the signing of the phase one trade deal in January, volumes are likely to remain weak unless the trade war is fully resolved.
- ▼ The coronavirus outbreak in China is an added bane. The company expects its first-quarter 2020 results to be hit by this adversity. The extended closure of factories in China due to the virus outbreak might dent freight volumes in the March-end quarter. Global supply chains are likely to be negatively impacted owing to shortages of raw materials, parts and supplies. Moreover, the Zacks Consensus Estimate for current-quarter earnings has been revised downward over the past 60 days.
- ▼ As Expeditors operates globally, it is exposed to foreign currency risks. Notably, foreign currency losses increased more than 100% in 2019 on a year-over-year basis. Moreover, shares of Expeditors have underperformed the S&P 500 Index (of which the company is a key member) in a year's time due to the above headwinds.

Expeditors' rising operating expenses are concerning. Moreover, slowdown in global trade due to Sino-U.S. trade tensions is concerning as the company has significant exposure to China.

Risks

- We are impressed by Expeditors' efforts to reward shareholders through dividend payments and buybacks. In 2019, the company repurchased 5.3 million shares on average price of \$72.91 per share. Moreover, in May 2019, the company announced an 11.1% hike in semi-annual cash dividend to 50 cents per share (annualized \$1 per share). Low tax rates are also supporting bottom-line growth at Expeditors.
 - Expeditors' trailing 12-month return on equity (ROE) supports its growth potential. The company's ROE of 27.5% compares favorably with its industry's ROE of 15.2% and the S&P 500 index's 18.5%. The favorable readings support the company's efficiency in utilizing its shareholders' funds.
 - We are also encouraged by Expeditors' sound balance sheet. As of Dec 31, 2019, the company had no long-term debt, mainly due to its asset-light business model. Additionally, despite the weakness in the company's airfreight division, the global airfreight forwarding market offers significant commercial potential in the long term. The market is expected to witness a CAGR of approximately 4% during the 2018-2022 time frame. Rapid e-commerce growth is the primary driver behind the lucrativeness of the space. This bodes well for Expeditors' growth.
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Last Earnings Report

Earnings Beat at Expeditors in Q4

Expeditors' earnings of 81 cents per share surpassed the Zacks Consensus Estimate by a penny. However, the bottom line decreased 20.6% on a year-over-year basis. Further, total revenues of \$2.04 billion missed the Zacks Consensus Estimate of \$2.19 billion and also declined 9% year over year.

Lower volumes hurt Expeditors' quarterly results. Given the company's exposure in China, the slowdown in trade to and from China proved to be a huge setback for Expeditors. Notably, volumes with respect to airfreight tonnage and ocean container contracted 6% and 13%, respectively, year over year. Operating income dropped 17% in the final quarter of 2019.

During the fourth quarter, the company repurchased 1.2 million shares at an average price of \$73.89 per share. The company exited 2019 with cash and cash equivalents of \$1.23 billion compared with \$923.7 million at the end of 2018.

Segmental Revenues

Airfreight Services revenues were down 16.3% year over year to \$757.9 million in the fourth quarter. Ocean Freight and Ocean Services revenues deteriorated 15.5% to \$519.7 million. However, Customs Brokerage and Other Services revenues increased 7.3% year over year to \$767.2 million.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-6.61%
EPS Surprise	1.25%
Quarterly EPS	0.81
Annual EPS (TTM)	3.41

Valuation

Expeditors shares are down 19.5% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are down 15.7% and 27.8%, respectively.

The S&P 500 index is down 3.4% in the past year.

The stock is currently trading at 17.6X forward 12-month price-to-earnings, which compares to 13.89X for the Zacks sub-industry, 9.15X for the Zacks sector and 15.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 16.9X, with a 5-year median of 20.79X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$53 price target reflects 15.06X forward 12-month earnings.

The table below shows summary valuation data for EXPD

Valuation Multiples - EXPD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.6	13.89	9.15	15.84
	5-Year High	27.02	25.39	17	19.34
	5-Year Low	16.9	9.18	9.15	15.18
	5-Year Median	20.79	19.93	13.11	17.42
EV/EBITDA TTM	Current	11.91	10.14	6.17	9.17
	5-Year High	16.54	21.69	11.07	12.87
	5-Year Low	9.23	9.64	5.84	8.31
	5-Year Median	13.02	12.71	7.38	10.78
P/S F 12M	Current	1.25	1.18	0.78	2.91
	5-Year High	1.7	2.26	1.4	3.44
	5-Year Low	1.13	0.6	0.78	2.54
	5-Year Median	1.46	1.43	1.2	3

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 253)



Top Peers

FedEx Corporation (FDX)	Neutral
Hertz Global Holdings, Inc (HTZ)	Neutral
Hub Group, Inc. (HUBG)	Neutral
United Parcel Service, Inc. (UPS)	Neutral
C.H. Robinson Worldwide, Inc. (CHRW)	Underperform
J.B. Hunt Transport Services, Inc. (JBHT)	Underperform
Landstar System, Inc. (LSTR)	Underperform
Ryder System, Inc. (R)	Underperform

Industry Comparison Industry: Transportation - Services				Industry Peers		
	EXPD Underperform	X Industry	S&P 500	CHRW Underperform	JBHT Underperform	R Underperform
VGM Score	C	-	-	C	B	B
Market Cap	10.53 B	1.24 B	17.38 B	8.11 B	8.86 B	1.52 B
# of Analysts	5	3	13	12	10	6
Dividend Yield	1.61%	0.00%	2.51%	3.39%	1.30%	7.83%
Value Score	D	-	-	D	D	C
Cash/Price	0.10	0.08	0.05	0.05	0.00	0.04
EV/EBITDA	11.37	6.66	10.90	10.39	8.20	3.77
PEG Ratio	NA	1.64	1.54	1.81	1.00	NA
Price/Book (P/B)	4.81	1.97	2.35	4.87	3.92	0.62
Price/Cash Flow (P/CF)	16.47	5.77	9.60	12.00	8.62	0.68
P/E (F1)	18.44	11.61	13.98	16.25	15.00	24.07
Price/Sales (P/S)	1.29	0.53	1.89	0.53	0.97	0.17
Earnings Yield	5.59%	7.66%	7.07%	6.16%	6.67%	4.16%
Debt/Equity	0.15	0.47	0.70	0.65	0.57	2.73
Cash Flow (\$/share)	3.77	1.96	7.01	5.01	9.67	41.99
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	12.55%	10.49%	10.85%	8.43%	11.91%	-2.38%
Proj. EPS Growth (F1/F0)	0.58%	15.01%	5.99%	-11.71%	13.70%	17.65%
Curr. Cash Flow Growth	-4.59%	2.29%	6.15%	-11.01%	-2.99%	25.93%
Hist. Cash Flow Growth (3-5 yrs)	8.52%	11.33%	8.52%	5.98%	9.02%	9.98%
Current Ratio	2.37	1.46	1.24	1.70	1.43	0.59
Debt/Capital	12.93%	32.88%	42.57%	39.54%	36.37%	73.22%
Net Margin	7.23%	2.44%	11.64%	3.77%	5.99%	-0.27%
Return on Equity	27.53%	10.03%	16.74%	34.67%	25.65%	10.30%
Sales/Assets	2.23	1.30	0.54	3.28	1.70	0.62
Proj. Sales Growth (F1/F0)	2.76%	3.16%	3.54%	-0.40%	6.77%	-0.27%
Momentum Score	D	-	-	B	C	F
Daily Price Chg	-7.93%	-6.94%	-10.03%	-6.24%	-5.58%	-9.35%
1 Week Price Chg	0.09%	-3.46%	-0.67%	-4.09%	-3.33%	-9.49%
4 Week Price Chg	-16.39%	-27.43%	-28.22%	-16.66%	-27.00%	-36.46%
12 Week Price Chg	-18.99%	-28.58%	-25.63%	-21.66%	-27.81%	-45.67%
52 Week Price Chg	-19.46%	-22.34%	-16.72%	-32.72%	-19.93%	-53.44%
20 Day Average Volume	2,393,271	143,759	3,061,271	1,863,308	910,255	1,353,601
(F1) EPS Est 1 week change	-0.29%	0.00%	0.00%	0.00%	-0.79%	-4.17%
(F1) EPS Est 4 week change	-5.50%	0.00%	-0.32%	0.00%	-0.79%	-53.37%
(F1) EPS Est 12 week change	-6.80%	-3.13%	-0.65%	-15.43%	-7.24%	-52.84%
(Q1) EPS Est Mthly Chg	-13.06%	-1.54%	-0.62%	0.00%	0.00%	-1,100.91%

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	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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