

FedEx Corporation (FDX)

\$203.86 (As of 08/13/20)

Price Target (6-12 Months): **\$216.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

Summary

We expect FedEx's first-quarter fiscal 2021 results, scheduled to be out on Sep 15, to benefit from the surge in e-commerce demand amid the current coronavirus-ravaged times. The company's performance in the to-be-reported quarter is likely to have been aided by higher Ground revenues on residential delivery volume growth. To combat the coronavirus-related woes, FedEx undertook several cost-reduction initiatives. For fiscal 2021, capital expenditures are expected to be \$4.9 billion, indicating a 17% decline from the year-ago reported figure. This, in turn, should aid the bottom line. However, shares of FedEx have underperformed its industry in a year's time, mainly due to persistent weakness at the Express unit. Slowdown in global economy is affecting segmental revenues. Additionally, the pandemic is hurting commercial volumes.

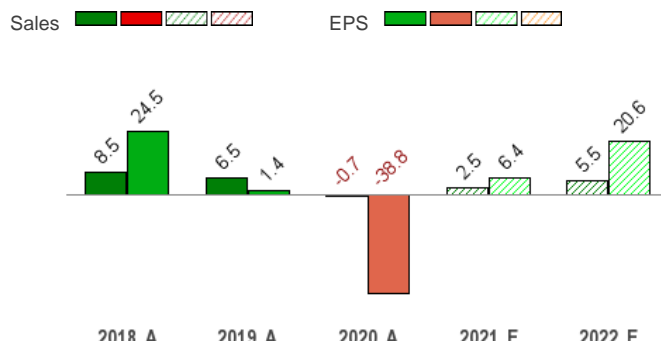
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$206.24 - \$88.69
20 Day Average Volume (sh)	3,291,391
Market Cap	\$53.4 B
YTD Price Change	34.8%
Beta	1.38
Dividend / Div Yld	\$2.60 / 1.3%
Industry	Transportation - Air Freight and Cargo
Zacks Industry Rank	Top 2% (4 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	78.2%
Last Sales Surprise	7.7%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	09/15/2020
Earnings ESP	0.0%
P/E TTM	21.5
P/E F1	20.2
PEG F1	1.7
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	18,291 E	18,525 E	18,516 E	19,545 E	74,860 E
2021	17,251 E	17,413 E	17,658 E	18,545 E	70,930 E
2020	17,048 A	17,324 A	17,487 A	17,358 A	69,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.36 E	\$2.75 E	\$2.74 E	\$4.69 E	\$12.19 E
2021	\$2.28 E	\$2.08 E	\$2.10 E	\$3.63 E	\$10.11 E
2020	\$3.05 A	\$2.51 A	\$1.41 A	\$2.53 A	\$9.50 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

Based in Memphis, TN, FedEx Corporation is the leader in global express delivery services. The company, founded in 1971, provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the FedEx brand.

The company is currently reporting, primarily through the FedEx Express (including TNT Express acquired in 2016), FedEx Ground and FedEx Freight segments. These segments contributed 51.3%, 32.8% and 10.3% respectively to the company's total revenues in fiscal 2020.

FedEx Express offers time-definite delivery to more than 220 countries and territories, connecting markets that comprise almost the entire gross domestic product of the world.

FedEx Express employs approximately 245,000 employees and has approximately 98,000 drop-off locations (including FedEx Office stores and FedEx OnSite locations), 679 aircraft and approximately 79,000 vehicles across the globe.

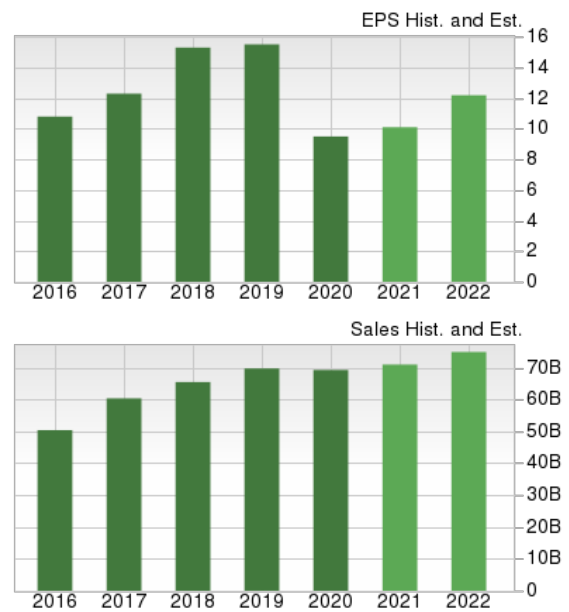
FedEx Ground offers low-cost, day-certain service to any business address in the United States and Canada, as well as residential delivery in the United States through its FedEx Home Delivery service.

FedEx SmartPost is also an offering of the FedEx Ground segment that focuses in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages.

Through the FedEx Freight segment, the company offers less-than-truckload ("LTL") freight services in the United States. The division also offers freight delivery service to destinations in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. At the end of fiscal 2020 (ended May 31, 2020), the segment operated approximately 30,000 vehicles and 373 service centers.

Through the FedEx Services segment, which includes FedEx office and print services, the company offers various services like sales, marketing, information technology, billing and collection.

Moreover, the FedEx Logistics (formerly known as FedEx Trade Networks) operating segment offers services pertaining to customs brokerage, and global ocean and air freight forwarding through FedEx Trade Networks Transport & Brokerage. Notably, results of the FedEx Logistics unit are reported under "Corporate, other and eliminations."



Reasons To Buy:

- ▲ We expect FedEx's first-quarter fiscal 2021 results, scheduled to be revealed on Sep 15, to benefit from the surge in e-commerce demand during the current coronavirus-ravaged times. E-commerce, which already became part and parcel of daily lives in today's fast-paced world, is witnessing higher demand now amid the pandemic-induced social-distancing protocols and quarantines. Additionally, with coronavirus-led restrictions relaxed and businesses having opened up, the company has been witnessing week-over-week improvement in commercial volumes since May.
- ▲ To combat the coronavirus-related headwinds, the company has undertaken several cost-reduction initiatives, such as temporary workforce reductions, deferring non-essential investments and reducing discretionary spending. Notably, for fiscal 2021, the company anticipates capital expenditures of approximately \$4.9 billion, indicating a 17% decline from fiscal 2020. The anticipated reduction in capital expenses is due to lower spending on vehicle replacement and deferral of facility investments.
- ▲ FedEx is expected to gain from the U.S.-Mexico-Canada Agreement (USMCA) agreement, which took effect on Jul 1. The agreement is anticipated to streamline trade across North America, thus aiding FedEx's operations. Moreover, its cash position is solid. Notably, FedEx exited fiscal 2020 with cash and cash equivalents of \$4,881 million, way above the current debt of \$51 million. This indicates that the company has sufficient cash to meet its current debt obligations.

Higher Ground revenues owing to residential delivery volume growth are partly offsetting the coronavirus-related adversities.

Reasons To Sell:

- ▼ The coronavirus pandemic is a huge setback to the company. Low commercial volumes due to large-scale business closures hurt revenues in fourth-quarter fiscal 2020. Similar to the third quarter, the bottom line declined significantly in fiscal fourth quarter. With the pandemic continuing, the situation remains uncertain. Although commercial volumes have been improving since May, it is below year-ago levels. Additionally, loss of business with Amazon is affecting FedEx's bottom line.
- ▼ Persistent weakness in FedEx's primary revenue generating segment, FedEx Express, is quite concerning. Slowdown in global economy is impacting revenues at this segment. FedEx Express revenues declined 5% year over year in fiscal 2020 due to 5% decrease in package revenues and 6% fall in freight revenues.
- ▼ Although, the company has put a check on its capital expenses and operating costs in view of the coronavirus concerns, integration expenses pertaining to TNT Express are affecting margins. The company is expected to incur TNT Express integration expenses of approximately \$1.7 billion through fiscal 2022. In fiscal 2021, \$175 million of the total amount is estimated to be incurred. Additionally, higher costs at the Ground unit due to expanded service offerings are hurting FedEx's bottom line. Notably, segmental operating expenses increased 16% in fiscal 2020.

Persistent weakness at the Express unit is concerning. Escalated costs at the Ground unit are also worrisome.

Last Earnings Report

FedEx Beats on Earnings in Q4

FedEx's earnings (excluding \$3.8 from non-recurring items) of \$2.53 per share surpassed the Zacks Consensus Estimate of \$1.42. However, the bottom line plunged approximately 50% year over year. Results were affected by coronavirus-led low volumes due to large-scale business closures, higher costs at the Ground unit due to expanded service offerings, as well as loss of business with Amazon.

Although quarterly revenues of \$17,358 million beat the Zacks Consensus Estimate of \$16,116.8 million, the same dipped 2.5% year over year. Operating income (on an adjusted basis) plunged 47.3% year over year to \$907 million in the reported quarter due to sluggish global economy and elevated costs. Operating margin (adjusted) also deteriorated to 5.2% from 9.6% in the year-ago period.

Quarter Ending **05/2020**

Report Date	Jun 30, 2020
Sales Surprise	7.70%
EPS Surprise	78.17%
Quarterly EPS	2.53
Annual EPS (TTM)	9.50

Segmental Performance

Quarterly revenues at FedEx Express (including TNT Express) declined 10% to \$8,560 million due to 14% decline in package revenues as a result of the slowdown in global economy among other factors. Segmental operating income (adjusted) decreased to \$392 million from \$837 million a year ago. Also, segmental operating margin contracted to 4.6% from 8.8% in fourth-quarter fiscal 2019, on an adjusted basis.

FedEx Ground revenues surged 20% year over year to \$6,394 million in the period under consideration owing to residential delivery volume growth. Operating income came in at \$673 million, slumping 17% year over year due to 27% increase in segmental operating expenses. Segmental operating margin shrank to 10.5% from 15.2% in the prior-year quarter.

FedEx Freight revenues declined 17% year over year to \$1,615 million due to softness in volumes. The segment's operating income also dropped 32% to \$132 million, despite 16% decline in operating expenses. Moreover, operating margin contracted to 8.2% from 9.9% in the year-ago quarter.

Outlook

The company anticipates capital expenditures of approximately \$4.9 billion in fiscal 2021, indicating a 17% decline from fiscal 2020. The anticipated reduction in capital expenses is due to lower spending on vehicle replacement and deferral of facility investments.

The company is expected to incur TNT Express integration expenses of approximately \$1.7 billion through fiscal 2022. In fiscal 2021, \$175 million of the total amount is estimated to be incurred.

Valuation

FedEx shares are up 34.8% and 33.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 43.4% in the year-to-date period while those in the Zacks Transportation sector are down 1.4%. Over the past year, the Zacks sub-industry and the sector are up 46.1% and 8.9%, respectively.

The S&P 500 index is up 4.7% and 18.8% in the year-to-date period and in the past year respectively.

The stock is currently trading at 21.46X trailing 12-month price to earnings, which compares to 22.05X for the Zacks sub-industry, 34.07X for the Zacks sector and 23.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.32X and as low as 7.55X, with a 5-year median of 15.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$216 price target reflects 22.73X trailing 12-month earnings.

The table below shows summary valuation data for FDX

Valuation Multiples - FDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	21.46	22.05	34.07	23.9
	5-Year High	22.32	22.05	34.07	23.9
	5-Year Low	7.55	11.51	11.53	15.98
	5-Year Median	15.41	17.32	15.52	19.26
EV/EBITDA TTM	Current	10.93	12.08	9.82	12.75
	5-Year High	13.04	12.98	11.09	12.84
	5-Year Low	4.74	6.76	5.41	8.24
	5-Year Median	7.98	9.44	7.24	10.9
P/S F 12M	Current	0.74	1.35	1.36	3.7
	5-Year High	1.1	1.5	1.41	3.7
	5-Year Low	0.33	0.84	0.85	2.53
	5-Year Median	0.8	1.2	1.2	3.05

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Atlas Air Worldwide Holdings (AAWW)	Outperform	1
Expeditors International of Washington, Inc. (EXPD)	Outperform	1
United Parcel Service, Inc. (UPS)	Outperform	1
Air Transport Services Group, Inc (ATSG)	Neutral	3
C.H. Robinson Worldwide, Inc. (CHRW)	Neutral	3
Norfolk Southern Corporation (NSC)	Neutral	3
Ryder System, Inc. (R)	Neutral	3
Union Pacific Corporation (UNP)	Neutral	3

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	FDX	X Industry	S&P 500	AAWW	ATSG	UPS
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	1	3	1
VGM Score	A	-	-	A	A	C
Market Cap	53.41 B	1.60 B	23.58 B	1.57 B	1.63 B	137.34 B
# of Analysts	13	3	14	2	4	12
Dividend Yield	1.28%	0.00%	1.68%	0.00%	0.00%	2.54%
Value Score	B	-	-	A	A	C
Cash/Price	0.10	0.09	0.07	0.48	0.05	0.07
EV/EBITDA	12.94	7.35	13.34	-88.98	7.20	17.75
PEG Ratio	1.68	2.38	2.99	NA	NA	3.08
Price/Book (P/B)	2.91	2.41	3.20	0.81	3.28	31.38
Price/Cash Flow (P/CF)	8.14	6.54	12.83	3.41	4.08	15.33
P/E (F1)	20.18	19.22	21.99	5.16	18.27	23.89
Price/Sales (P/S)	0.77	0.66	2.53	0.55	1.06	1.77
Earnings Yield	4.95%	5.22%	4.35%	19.39%	5.49%	4.19%
Debt/Equity	1.87	1.87	0.77	1.33	3.11	5.86
Cash Flow (\$/share)	25.05	6.69	6.94	17.63	6.69	10.39
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	7.73%	9.86%	10.41%	11.25%	29.94%	8.47%
Proj. EPS Growth (F1/F0)	6.37%	13.33%	-6.32%	122.23%	-0.99%	-11.44%
Curr. Cash Flow Growth	-12.37%	-3.18%	5.20%	-3.18%	34.57%	4.64%
Hist. Cash Flow Growth (3-5 yrs)	4.77%	9.73%	8.55%	15.30%	22.99%	7.12%
Current Ratio	1.58	1.24	1.33	1.01	0.95	1.24
Debt/Capital	65.11%	69.39%	44.59%	57.02%	75.69%	85.43%
Net Margin	1.86%	1.86%	10.13%	-8.66%	6.36%	5.66%
Return on Equity	13.49%	16.04%	14.51%	13.46%	23.94%	156.85%
Sales/Assets	0.98	0.98	0.51	0.51	0.54	1.32
Proj. Sales Growth (F1/F0)	2.47%	4.89%	-1.43%	14.97%	7.31%	8.44%
Momentum Score	C	-	-	C	F	B
Daily Price Chg	0.94%	0.35%	-0.44%	0.12%	-1.01%	0.95%
1 Week Price Chg	8.98%	9.43%	2.30%	13.42%	7.43%	9.90%
4 Week Price Chg	22.73%	22.37%	4.38%	22.01%	11.29%	33.03%
12 Week Price Chg	76.09%	43.88%	13.59%	51.76%	29.37%	63.69%
52 Week Price Chg	33.40%	34.67%	5.75%	127.83%	35.94%	39.85%
20 Day Average Volume	3,291,391	530,458	1,984,154	542,801	518,114	5,694,117
(F1) EPS Est 1 week change	0.77%	1.76%	0.00%	37.65%	2.75%	0.06%
(F1) EPS Est 4 week change	0.77%	11.65%	2.08%	37.65%	3.46%	19.84%
(F1) EPS Est 12 week change	1.61%	11.66%	2.66%	37.81%	3.82%	19.50%
(Q1) EPS Est Mthly Chg	0.00%	10.23%	0.94%	69.20%	-11.77%	20.45%

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	B
Momentum Score	C
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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