

FedEx Corporation (FDX)

\$164.91 (As of 02/20/20)

Price Target (6-12 Months): **\$175.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

Summary

Shares of FedEx have underperformed its industry in a year's time, mainly due to high operating expenses and weakness of FedEx Express, the major revenue-generating unit. Evidently, segmental revenues declined 4.2% in first-half fiscal 2020. Sluggish global trade and industrial production are affecting the Express unit's performance. Additionally, FedEx trimmed its fiscal 2020 earnings view in December on expectations of lower revenues and elevated costs due to expansion of the seven-day delivery service at the Ground segment. The Coronavirus outbreak in China is also a setback for the company. However, solid e-commerce growth is a major positive. Efforts to reward its shareholders through dividends and buybacks are encouraging too. The buyout of Cargex, that has strengthened FedEx's Latin American footprint, is also commendable.

Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$199.32 - \$137.78**

20 Day Average Volume (sh) **2,481,972**

Market Cap **\$43.1 B**

YTD Price Change **9.1%**

Beta **1.71**

Dividend / Div Yld **\$2.60 / 1.6%**

Industry **[Transportation - Air Freight and Cargo](#)**

Zacks Industry Rank **Top 42% (106 out of 255)**

Last EPS Surprise **-10.0%**

Last Sales Surprise **-1.4%**

EPS F1 Est- 4 week change **-0.2%**

Expected Report Date **03/17/2020**

Earnings ESP **0.0%**

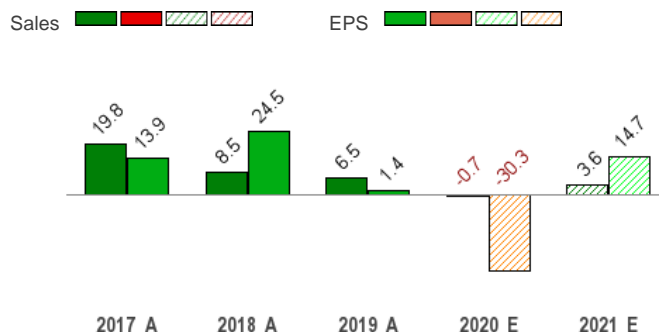
P/E TTM **12.1**

P/E F1 **15.3**

PEG F1 **1.2**

P/S TTM **0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	17,905 E	18,113 E	17,922 E	18,915 E	71,726 E
2020	17,048 A	17,324 A	17,186 E	17,602 E	69,232 E
2019	17,052 A	17,824 A	17,010 A	17,807 A	69,693 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.03 E	\$2.92 E	\$2.33 E	\$4.37 E	\$12.41 E
2020	\$3.05 A	\$2.51 A	\$1.82 E	\$3.44 E	\$10.82 E
2019	\$3.46 A	\$4.03 A	\$3.03 A	\$5.01 A	\$15.52 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 02/20/2020. The reports text is as of 02/21/2020.

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 53.6%, 29.4% and 10.9% respectively to the company's total revenues in fiscal 2019.

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 227,000 employees and has approximately 100,000 drop-off locations (including FedEx Office stores and FedEx OnSite locations), 670 aircraft and approximately 90,000 vehicles across the globe.

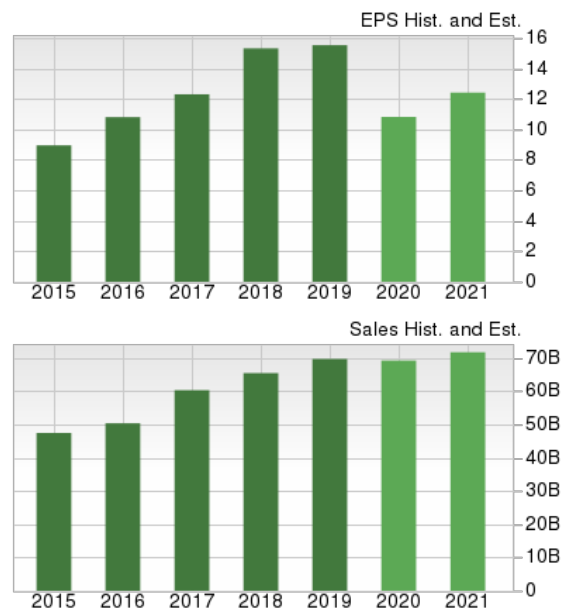
FedEx Ground offers low-cost, day-certain service to any business address in the United States and Canada, as well as residential delivery in the United States through its FedEx Home Delivery service.

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 2019 (ended May 31, 2019), the segment operated approximately 28,000 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:

▲ FedEx is being aided by e-commerce growth and a buoyant U.S. economy. In December 2018, the company launched FedEx Extra Hours, a service aimed at boosting the company's e-commerce delivery chain by allowing e-commerce orders to be fulfilled in the evening as well as receive late pickups by FedEx Express. The service is a boon for both online shoppers as well as the retailers. Moreover, with thriving e-commerce growth, the company hopes to start the peak holiday shipping season with record package volumes of more than 33 million on Cyber Monday, Dec 2, 2019. The move, announced in Feb 2020, to optimize last-mile residential deliveries, is in response to the phenomenal e-commerce growth.

▲ We are impressed by the company's efforts to add shareholder value via dividend payments and share buybacks. Evidently, the company has rewarded shareholders to the tune of approximately \$14 billion through the above shareholder-friendly measures since the commencement of fiscal 2014. In June 2018, the company raised its quarterly dividend by 30% to 65 cents a share (or \$2.60 annually) from 50 cents (or \$2 annually). Moreover, the company repurchased 6.6 million shares for approximately \$1.5 billion during fiscal 2019.

▲ We are positive on FedEx's acquisition of Cargex. The buyout has strengthened FedEx's Latin American footprint. In another decision aimed toward expanding its footprint in Latin America, FedEx Express announced a roundtrip Colombia-to-Miami flight in 2019 to enhance connectivity with the Latin American market. Moreover, tensions between Amazon and FedEx eased following the former's decision to lift the ban, which was temporarily put on the usage of the latter's ground delivery network for Amazon's Prime shipments

Growth in e-commerce is a huge positive for FedEx. We are also impressed by the company's efforts to reward shareholders through dividends and buybacks.

Reasons To Sell:

- ▼ FedEx's persistent below-par performance on account of weak global economy due to the trade tensions between the United States and China and higher costs are quite concerning. The slowdown in global economy is affecting its primary revenue-generating segment, FedEx Express, significantly. Even though the situation might improve in 2020, particularly due to tariff relief following the signing of the U.S.-China Phase 1 trade deal, significant growth in terms of freight volumes is not expected at least in the near term. Additionally, FedEx's decision to not renew a shipping contract between its Express division and e-commerce giant Amazon hurt the segment's first-half fiscal 2020 results. Evidently, segmental revenues slipped 4.2% in first-half fiscal 2020. The development is likely to hurt fiscal third-quarter results (should be out on Mar 17, 2020) as well. The Coronavirus outbreak is also likely to dent fiscal third-quarter results.
- ▼ While releasing its fiscal second-quarter results in December, FedEx trimmed its fiscal 2020 adjusted earnings outlook for the second time in the fiscal year. FedEx's earnings (prior to the year-end MTM retirement plan accounting adjustment and excluding TNT Express integration expenses) are now anticipated to be \$10.25-\$11.50 per share. During the first quarter of fiscal 2020 earnings release, the company had trimmed its fiscal 2020 earnings view to \$11-\$13. The latest decision to slash its earnings outlook was due to expectations of lower revenues at each of the transportation segments and elevated costs due to expansion of the seven-day delivery service at the Ground unit.
- ▼ With FedEx investing significantly in facility upgrades, capital expenses are on an upswing. Capital expenses are expected to be \$5.9 billion for fiscal 2020, higher than the fiscal 2019 figure. Additionally, integration expenses pertaining to TNT Express are perking up costs. FedEx believes it will incur a total of \$1.7 billion toward TNT Express integration expenses through fiscal 2021.

Weakness in global trade is a cause for concern. Escalated costs at its Ground unit are also worrisome.

Last Earnings Report

FedEx Misses on Earnings in Q2

The company's second-quarter fiscal 2020 adjusted earnings (excluding 38 cents from non-recurring items) of \$2.51 per share missed the Zacks Consensus Estimate of \$2.79. Moreover, the bottom line plunged 37.7% year over year.

Quarterly revenues dipped 2.8% year over year to \$17.32 billion and also lagged the Zacks Consensus Estimate of \$17.57 billion. The top line was hampered by loss of business "from a large customer" (supposedly Amazon) and macroeconomic weakness.

Operating income (on an adjusted basis) dropped approximately 49% year over year to \$684 million in the reported quarter due to sluggish global economy and elevated costs. Operating margin (adjusted) also deteriorated to 3.9% from 7.5% in the year-ago period.

Segmental Performance

Quarterly revenues at FedEx Express (including TNT Express) slid 5% to \$9.08 billion due to lower freight revenues as a result of the slowdown in global economy and certain other factors. Operating income came in at \$236 million, down 63% year over year. Also, operating margin slipped to 2.6% from 6.6% in the year-ago quarter.

FedEx Ground revenues rose 3% year over year to \$5.32 billion in the period under consideration owing to residential delivery volume growth. Operating income came in at \$342 million, slumping 42% year over year while operating margin contracted to 6.4% from 11.5% in the prior-year quarter.

FedEx Freight revenues decreased 4% year over year to \$1.84 billion. Segmental revenues were hurt by a fall in average daily shipments. The segment's operating income also slipped 5% to \$141 million. Moreover, operating margin contracted 10 basis points to 7.6% in the quarter under review.

Fiscal 2020 Outlook

The company slashed its fiscal 2020 adjusted earnings outlook on expectations of lower revenues at each of the transportation segments and increased costs due to expansion of 7-day delivery service at the Ground unit (the Ground unit costs are expected to be reduced in the fiscal fourth quarter). FedEx's earnings (prior to the year-end MTM retirement plan accounting adjustment and excluding TNT Express integration expenses) are now anticipated to be \$10.25-\$11.50 per share. During the first quarter of fiscal 2020 earnings release, the company trimmed its fiscal 2020 earnings view to \$11-\$13.

Effective tax rate (prior to the year-end MTM retirement plan accounting adjustment) is now estimated to be 23-26% compared with 24-26% anticipated previously. Meanwhile, the estimate for capital expenditures is fixed at \$5.9 billion. The company expects to incur heavy TNT Express integration expenses through fiscal 2021 and thereafter.

Quarter Ending **11/2019**

Report Date	Dec 17, 2019
Sales Surprise	-1.40%
EPS Surprise	-10.04%
Quarterly EPS	2.51
Annual EPS (TTM)	13.60

Recent News

Plan to Maximize Residential Deliveries — Feb 9, 2020

FedEx plans to hand off some of its Express packages to its Ground unit for residential deliveries. This new strategy to integrate the two networks for delivery of selective day-definite residential Express shipments will initially be rolled out at Greensboro, NC in March. It will be extended to other markets in phases through the rest of the year.

The move not only aims to handle residential deliveries more competently but also to reduce costs. The expensive last-mile deliveries can be made cheaper by allowing the Express business hand off a fewer number of time-bound packages to the Ground unit for final delivery as that would lower the instances of a driver from both divisions visiting the same customer.

FedEx anticipates 90% of growth in the parcel industry to originate from e-commerce during the period between 2018 and 2026. The company has been making relentless efforts to capitalize on this e-commerce boom. Last month, its low-cost delivery unit, FedEx Ground, started delivering packages seven days a week to cope with the steep surge in e-commerce demand.

Valuation

FedEx shares are down 8.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 5.7% in a year. Shares the Zacks Transportation sector are up 2.6% in a year's time. The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 13.77X forward 12-month price to earnings, which compares to 13.42X for the Zacks sub-industry, 13.25X for the Zacks sector and 19.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.09X and as low as 8.46X, with a 5-year median of 13.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$175 price target reflects 11.13X forward 12-month earnings.

The table below shows summary valuation data for FDX

Valuation Multiples - FDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.77	13.42	13.25	19.31
	5-Year High	20.09	18.07	17	19.34
	5-Year Low	8.46	10.96	10.48	15.18
	5-Year Median	13.73	15.62	13.21	17.47
EV/EBITDA TTM	Current	6.69	13.25	7.88	8.8
	5-Year High	12.89	17.22	11.08	12.98
	5-Year Low	4.8	12.15	6	8.19
	5-Year Median	7.96	13.37	7.4	9.57
P/S F12M	Current	0.61	1.01	1.14	3.56
	5-Year High	1.1	1.5	1.44	3.56
	5-Year Low	0.51	0.92	1.02	2.54
	5-Year Median	0.83	1.23	1.21	3

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Atlas Air Worldwide Holdings (AAWW)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
CSX Corporation (CSX)	Neutral
Radiant Logistics, Inc. (RLGT)	Neutral
Union Pacific Corporation (UNP)	Neutral
United Parcel Service, Inc. (UPS)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
C.H. Robinson Worldwide, Inc. (CHRW)	Underperform

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	FDX Neutral	X Industry	S&P 500	AAWW Neutral	AVH Neutral	UPS Neutral
VGM Score	B	-	-	A	B	B
Market Cap	43.06 B	859.43 M	24.34 B	859.43 M	413.00 M	91.34 B
# of Analysts	10	1.5	13	3	1	12
Dividend Yield	1.58%	0.00%	1.78%	0.00%	2.06%	3.61%
Value Score	B	-	-	A	A	B
Cash/Price	0.05	0.06	0.04	0.12	0.52	0.06
EV/EBITDA	15.70	6.72	14.18	4.58	3.26	12.16
PEG Ratio	1.18	1.42	2.09	NA	NA	1.56
Price/Book (P/B)	2.31	2.44	3.30	0.48	NA	27.82
Price/Cash Flow (P/CF)	5.75	5.67	13.49	1.88	0.82	10.74
P/E (F1)	14.99	13.54	19.28	7.85	NA	13.48
Price/Sales (P/S)	0.62	0.31	2.68	0.31	0.09	1.23
Earnings Yield	6.56%	7.35%	5.17%	12.73%	-3.20%	7.42%
Debt/Equity	1.67	1.67	0.70	1.33	-11.08	6.65
Cash Flow (\$/share)	28.66	6.07	7.03	17.63	6.07	9.92
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	14.41%	12.02%	10.84%	9.63%	NA	9.22%
Proj. EPS Growth (F1/F0)	-30.32%	3.03%	7.09%	-19.21%	3.03%	4.87%
Curr. Cash Flow Growth	-2.30%	25.42%	6.72%	-3.18%	26.87%	12.82%
Hist. Cash Flow Growth (3-5 yrs)	9.78%	11.18%	8.25%	19.97%	3.27%	6.52%
Current Ratio	1.25	1.11	1.22	0.58	0.22	1.11
Debt/Capital	62.52%	70.51%	42.37%	57.02%	77.10%	86.92%
Net Margin	0.11%	1.63%	11.56%	-10.70%	-10.71%	5.99%
Return on Equity	19.10%	19.10%	16.80%	6.85%	-110.89%	156.11%
Sales/Assets	1.12	1.12	0.55	0.47	0.63	1.37
Proj. Sales Growth (F1/F0)	-0.66%	0.00%	3.90%	12.12%	-2.01%	4.58%
Momentum Score	D	-	-	D	F	D
Daily Price Chg	2.34%	1.26%	0.01%	11.93%	0.00%	-0.26%
1 Week Price Chg	1.90%	0.00%	1.65%	0.26%	0.00%	2.74%
4 Week Price Chg	6.48%	2.54%	0.36%	29.66%	6.38%	-8.94%
12 Week Price Chg	2.11%	-9.07%	4.39%	25.03%	24.07%	-11.17%
52 Week Price Chg	-9.53%	-9.53%	15.29%	-44.08%	9.17%	-4.72%
20 Day Average Volume	2,481,972	268,690	1,992,841	516,562	182,604	3,784,677
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.55%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.23%	-1.12%	-0.02%	-1.55%	-132.32%	-1.12%
(F1) EPS Est 12 week change	-10.71%	-1.23%	-0.17%	3.93%	-120.92%	-1.23%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.48%	0.00%	NA	-8.03%

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	C
Momentum Score	D
VGM Score	B

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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