

FedEx Corporation (FDX)

\$154.88 (As of 01/23/20)

Price Target (6-12 Months): **\$132.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/20/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

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 in each of the transportation segments and elevated costs due to expansion of the seven-day delivery service at the Ground unit. Moreover, TNT Express integration costs are weighing on its performance. In fact, FedEx expects to incur a total of \$1.7 billion on the same through fiscal 2021. However, solid e-commerce growth is a major positive. Efforts to reward its shareholders are encouraging too.

Price, Consensus & Surprise



Data Overview

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

20 Day Average Volume (sh) **2,277,387**

Market Cap **\$40.4 B**

YTD Price Change **2.4%**

Beta **1.68**

Dividend / Div Yld **\$2.60 / 1.7%**

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

Zacks Industry Rank **Top 28% (71 out of 255)**

Last EPS Surprise **-10.0%**

Last Sales Surprise **-1.4%**

EPS F1 Est- 4 week change **-0.6%**

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

Earnings ESP **0.0%**

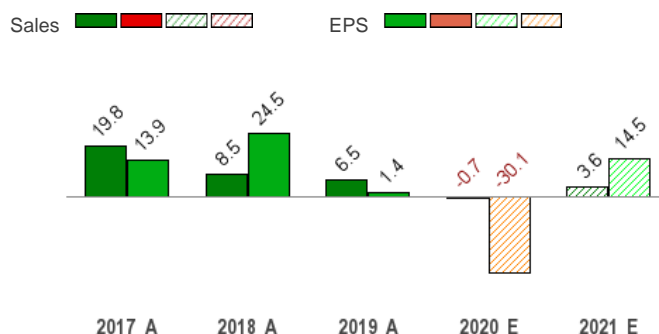
P/E TTM **11.4**

P/E F1 **14.3**

PEG F1 **1.1**

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	\$10.84 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 01/23/2020. The reports text is as of 01/24/2020.

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.

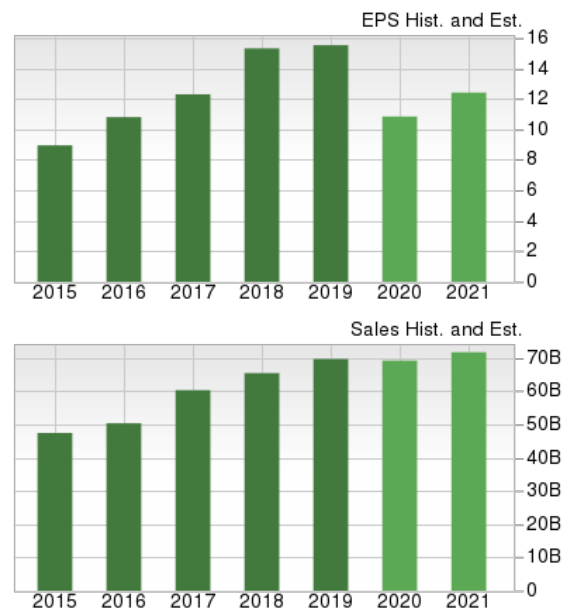
FedEx Ground offers low-cost, day-certain service to any business address in the United States and Canada, as well as residential delivery in the United States through its FedEx Home Delivery service.

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 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 second-quarter fiscal 2020 results of FedEx's Ground unit were hurt due to the decision to not renew its ground delivery contract with Amazon. Segmental 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. The decision to end the partnership with Amazon was announced in August.
- ▼ 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. The dispute with Chinese telecommunications-equipment maker, Huawei Technologies, is an added concern for FedEx.

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

Risks

- 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.
 - 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 Colombian freight forwarder 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 strengthen connectivity with the Latin American market.
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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

Dividend Update — Nov 15, 2019

FedEx's board cleared a quarterly cash dividend of 65 cents per share, payable to shareholders on Jan 2, 2020 of record as of Dec 9, 2019.

Valuation

FedEx shares are down 11.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 5.6% and 12.5% in a year's time, respectively. The S&P 500 index is up 24% in the past year.

The stock is currently trading at 13.06X forward 12-month price to earnings, which compares to 13.96X for the Zacks sub-industry, 13.44X for the Zacks sector and 19.15X 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 13.79X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$132 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	13.06	13.96	13.44	19.15
	5-Year High	20.09	18.07	16.98	19.34
	5-Year Low	8.46	10.96	10.46	15.17
	5-Year Median	13.79	15.65	13.11	17.44
EV/EBITDA TTM	Current	6.72	9.36	8.07	12.38
	5-Year High	12.89	12.98	11.11	12.86
	5-Year Low	4.8	8.19	5.97	8.48
	5-Year Median	7.57	9.59	7.41	10.67
P/S F12M	Current	0.57	1.06	1.17	3.56
	5-Year High	1.1	1.5	1.44	3.56
	5-Year Low	0.51	0.92	1.03	2.54
	5-Year Median	0.83	1.24	1.23	3

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	FDX Underperform	X Industry	S&P 500	AAWW Outperform	AVH Neutral	UPS Neutral
VGM Score	B	-	-	C	B	B
Market Cap	40.44 B	662.81 M	24.46 B	662.81 M	388.22 M	100.31 B
# of Analysts	10	2	13	3	2	12
Dividend Yield	1.68%	0.00%	1.75%	0.00%	2.19%	3.28%
Value Score	B	-	-	A	A	B
Cash/Price	0.05	0.05	0.04	0.11	0.56	0.04
EV/EBITDA	15.13	7.58	14.11	4.41	3.22	13.54
PEG Ratio	1.11	1.43	2.04	NA	NA	1.67
Price/Book (P/B)	2.17	2.16	3.40	0.30	NA	18.00
Price/Cash Flow (P/CF)	5.40	5.40	13.66	1.39	0.77	11.79
P/E (F1)	14.17	13.88	19.10	5.96	9.49	14.64
Price/Sales (P/S)	0.58	0.31	2.67	0.24	0.08	1.37
Earnings Yield	7.00%	7.19%	5.23%	16.78%	10.64%	6.83%
Debt/Equity	1.67	1.67	0.72	1.12	-11.08	4.27
Cash Flow (\$/share)	28.66	6.07	6.94	18.41	6.07	9.92
Growth Score	C	-	-	F	C	A
Hist. EPS Growth (3-5 yrs)	14.41%	12.02%	10.60%	9.63%	NA	9.33%
Proj. EPS Growth (F1/F0)	-30.15%	6.15%	7.59%	-7.66%	400.00%	6.15%
Curr. Cash Flow Growth	-2.30%	26.87%	13.90%	42.76%	26.87%	12.82%
Hist. Cash Flow Growth (3-5 yrs)	9.78%	11.18%	9.00%	19.97%	3.27%	6.52%
Current Ratio	1.25	1.11	1.22	0.39	0.22	1.11
Debt/Capital	62.52%	67.95%	42.99%	52.86%	77.10%	81.03%
Net Margin	0.11%	2.98%	11.35%	11.90%	-10.71%	6.81%
Return on Equity	19.10%	19.10%	17.10%	6.10%	-110.89%	154.80%
Sales/Assets	1.12	1.12	0.55	0.47	0.63	1.41
Proj. Sales Growth (F1/F0)	-0.66%	0.00%	4.03%	11.65%	-2.01%	4.38%
Momentum Score	C	-	-	A	F	C
Daily Price Chg	-0.42%	-0.32%	0.26%	-2.60%	2.84%	-0.28%
1 Week Price Chg	2.14%	4.70%	2.29%	5.09%	7.96%	2.36%
4 Week Price Chg	1.57%	-4.08%	2.24%	-7.44%	2.84%	-1.77%
12 Week Price Chg	1.45%	3.21%	7.79%	16.83%	7.80%	1.53%
52 Week Price Chg	-11.04%	-5.90%	21.61%	-49.53%	5.62%	17.28%
20 Day Average Volume	2,277,387	236,273	1,536,379	236,273	113,630	2,334,786
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.56%	0.02%	0.00%	8.04%	0.00%	0.02%
(F1) EPS Est 12 week change	-10.50%	-10.50%	-0.23%	-23.21%	-35.29%	-0.35%
(Q1) EPS Est Mthly Chg	-3.04%	10.53%	0.00%	513.33%	NA	-1.15%

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	C
Momentum Score	C
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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