

FedEx Corporation (FDX)

\$139.07 (As of 06/23/20)

Price Target (6-12 Months): **\$147.00**

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: A

Growth: A

Momentum: F

Summary

We expect FedEx's fourth-quarter fiscal 2020 results to be aided by the increase in e-commerce sales during the coronavirus pandemic. Detailed results should be out on Jun 30. Notably, the need for door-to-door delivery of essentials is on the rise during this unprecedented crisis. Moreover, FedEx Ground revenues are likely to have been high owing to residential delivery volume growth. However, supply-chain disruptions due to the pandemic are likely to have weighed on the performance of FedEx in the to-be-reported quarter. Also, akin to the last few quarters, FedEx's primary revenue generating segment – FedEx Express – is likely to have performed disappointingly in fourth-quarter fiscal 2020. The coronavirus-induced global economic slowdown is likely to have dented segmental performance. High costs represent another bane.

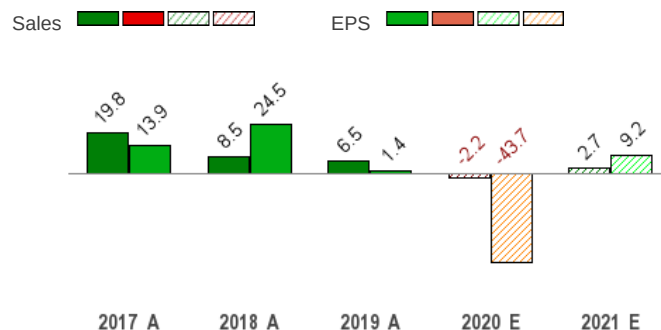
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$178.50 - \$88.69
20 Day Average Volume (sh)	2,458,300
Market Cap	\$36.3 B
YTD Price Change	-8.0%
Beta	1.31
Dividend / Div Yld	\$2.60 / 1.9%
Industry	Transportation - Air Freight and Cargo
Zacks Industry Rank	Top 9% (23 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.4%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	-4.0%
Expected Report Date	06/30/2020
Earnings ESP	-15.2%
P/E TTM	11.6
P/E F1	14.6
PEG F1	1.1
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,387 E	17,125 E	17,712 E	18,228 E	69,992 E
2020	17,048 A	17,324 A	17,487 A	16,296 E	68,160 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	\$1.44 E	\$1.97 E	\$2.00 E	\$3.60 E	\$9.54 E
2020	\$3.05 A	\$2.51 A	\$1.41 A	\$1.66 E	\$8.74 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 06/23/2020. The reports text is as of 06/24/2020.

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.

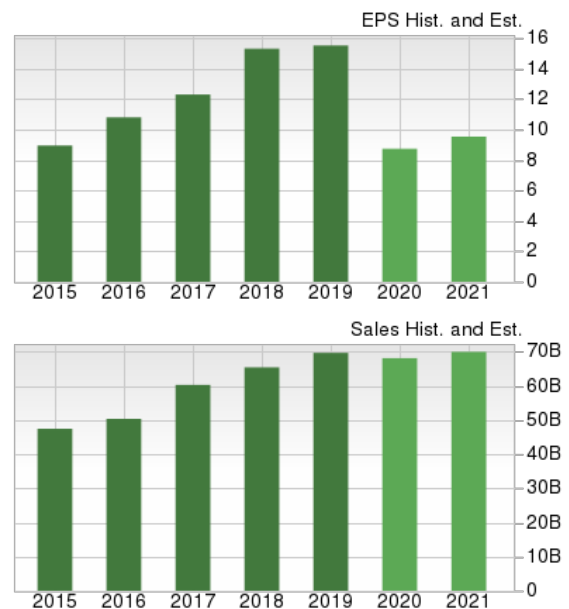
FedEx Ground offers low-cost, day-certain service to any business address in the United States and Canada, as well as residential delivery in the United States through its FedEx Home Delivery service.

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 Buy:

- ▲ We expect FedEx's fourth-quarter fiscal 2020 results to be aided by the increase in e-commerce sales during the coronavirus pandemic. Detailed results should be out on Jun 30. 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, quarantine and lockdowns.
- ▲ We are positive on the increase in FedEx Ground revenues (up 7% in the first nine months of fiscal 2020). Residential delivery volume growth should aid segmental results in the to-be-reported quarter as well. As FedEx Ground is the second-highest revenue contributor, strong performance of the segment bodes well for the company.
- ▲ 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.

The uptick in e-commerce sales is likely to have aided FedEx's fiscal fourth quarter performance.

Reasons To Sell:

- ▼ The coronavirus pandemic is a huge setback to the company. It is one of the factors responsible for the 53.5% decline in the bottom line in the third quarter of fiscal 2020. Management at FedEx is not sure about the duration of the coronavirus pandemic and its impact on the global economic scenario. Consequently, fourth-quarter results are also expected to get affected. In fact, the company suspended its earnings outlook for fiscal 2020 due to the coronavirus-led uncertainty.
- ▼ FedEx's persistent below-par performance on account of weak global economy due to the trade tensions between the United States and China are quite concerning. The slowdown in global economy is affecting its primary revenue-generating segment, FedEx Express, significantly. Akin to the last few quarters, the FedEx Express unit is likely to have performed disappointingly in fourth-quarter fiscal 2020 as well.
- ▼ FedEx investing significantly in facility upgrades, capital expenses are on an upswing. Additionally, integration expenses pertaining to TNT Express are perking up costs. Moreover, higher costs at the Ground unit due to expanded service offerings are also limiting bottom-line growth. Notably, segmental operating expenses increased 12% in the first nine months of fiscal 2020. Again, the cash and cash equivalents at FedEx at the end of the fiscal third quarter was \$176.6 million, way below the current debt figure of \$223.7 million, implying that not the company doesn't have enough cash to meet even its current debt burden.

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 Q3

The company's third-quarter fiscal 2020 adjusted earnings (excluding 21 cents from non-recurring items) of \$1.41 per share fell short of the Zacks Consensus Estimate by 8 cents. Moreover, the bottom line plunged 53.5% year over year. Results were hurt by factors like the coronavirus pandemic, weak macroeconomic conditions, higher costs at the Ground unit due to expanded service offerings, loss of business with Amazon, shift to lower-yielding services and a highly competitive pricing scenario.

Quarterly revenues inched up 2.8% year over year to \$17,487 million and also surpassed the Zacks Consensus Estimate of \$17,068.7 million despite coronavirus-related woes. Operating income (on an adjusted basis) plunged 50.9% year over year to \$483 million in the reported quarter due to sluggish global economy and elevated costs. Operating margin (adjusted) also deteriorated to 2.8% from 5.8% in the year-ago period.

Quarter Ending 02/2020

Report Date	Mar 17, 2020
Sales Surprise	2.45%
EPS Surprise	-5.37%
Quarterly EPS	1.41
Annual EPS (TTM)	11.98

Segmental Performance

Quarterly revenues at FedEx Express (including TNT Express) dipped 1% to \$8,924 million due to 5% decline in freight revenues as a result of the slowdown in global economy and certain other factors. Segmental operating income (adjusted) decreased to \$199 million from \$445 million a year ago. Also, segmental operating margin contracted to 2.2% from 4.9% in third-quarter fiscal 2019, on an adjusted basis.

FedEx Ground revenues rose 11% year over year to \$5,845 million in the period under consideration owing to residential delivery volume growth. Operating income came in at \$355 million, slumping 39% year over year due to 17% increase in segmental operating expenses. Segmental operating margin shrank to 6.1% from 11.1% in the prior-year quarter.

FedEx Freight revenues slipped 1% year over year to \$1,738 million due to softness in volume growth. The segment's operating income increased 16% to \$113 million, driven by lower operating expenses. Moreover, operating margin expanded to 6.5% from 5.5% in the year-ago quarter.

Moreover, the company suspended its earnings outlook for fiscal 2020 due to the coronavirus-led uncertainty.

Recent News

FedEx to Place Coronavirus-Induced Surcharge on Global Shipments - Mar 31, 2020

In a bid to tackle the limited air cargo capacity due to the coronavirus pandemic, FedEx has decided to temporarily impose surcharges on international shipments (parcel as well as freight) beginning Apr 6, 2020. Notably, the surcharges are levied by FedEx's main revenue generating unit, FedEx Express, which includes the TNT Express operations.

Management at FedEx stated that with global supply-chain disruption in the wake of the coronavirus spread, it decided to enforce surcharges of 45 cents per pound on international shipments to/from China and also between countries in the Asia Pacific region. International shipments elsewhere will attract surcharge in the 5-10 cents a pound range. Surcharges apart, the minimum charge per shipment is applicable as well.

Valuation

FedEx shares have been down 8% and 10.9% year to date and over the past year, respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 0.1% but down 12.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 12.5% and 6.7%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period and up 7% in the past year.

The stock is currently trading at 11.61X trailing 12-month price to earnings, which compares to 15.25X for the Zacks sub-industry, 16.17X for the Zacks sector and 20.17X 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 15.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$147 price target reflects 11.61X 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	11.61	15.25	16.17	20.17
	5-Year High	22.32	20.85	19.57	22.23
	5-Year Low	7.55	11.51	11.63	15.96
	5-Year Median	15.43	17.32	15.53	19.04
EV/EBITDA TTM	Current	6.57	9.08	7.31	11.56
	5-Year High	13.04	12.89	11.16	12.85
	5-Year Low	4.74	6.76	5.44	8.25
	5-Year Median	7.94	9.44	7.33	10.83
P/S F12M	Current	0.52	1.01	1.24	3.49
	5-Year High	1.1	1.5	1.42	3.49
	5-Year Low	0.33	0.84	0.85	2.53
	5-Year Median	0.81	1.2	1.2	3.02

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Atlas Air Worldwide Holdings (AAWW)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
C.H. Robinson Worldwide, Inc. (CHRW)	Neutral	5
CSX Corporation (CSX)	Neutral	4
Expeditors International of Washington, Inc. (EXPD)	Neutral	3
Union Pacific Corporation (UNP)	Neutral	3
United Parcel Service, Inc. (UPS)	Neutral	3
XPO Logistics, Inc. (XPO)	Neutral	3

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	FDX	X Industry	S&P 500	AAWW	CHRW	UPS
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	5	3
VGM Score	A	-	-	A	C	B
Market Cap	36.33 B	1.18 B	21.86 B	1.08 B	10.41 B	95.37 B
# of Analysts	12	3	14	2	11	12
Dividend Yield	1.87%	0.00%	1.92%	0.00%	2.64%	3.65%
Value Score	A	-	-	B	C	B
Cash/Price	0.05	0.09	0.07	0.22	0.03	0.10
EV/EBITDA	14.31	6.30	12.65	-87.93	13.30	12.99
PEG Ratio	1.12	1.97	2.90	NA	3.02	2.72
Price/Book (P/B)	1.93	1.81	2.99	0.59	6.56	28.73
Price/Cash Flow (P/CF)	4.85	4.49	11.61	2.35	15.44	10.64
P/E (F1)	14.32	14.74	21.08	4.90	27.14	19.97
Price/Sales (P/S)	0.52	0.46	2.25	0.40	0.68	1.27
Earnings Yield	6.85%	6.80%	4.42%	20.40%	3.69%	5.01%
Debt/Equity	1.66	1.66	0.77	1.37	0.69	8.06
Cash Flow (\$/share)	28.66	6.69	7.01	17.63	5.01	10.39
Growth Score	A	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	11.78%	10.29%	10.84%	7.45%	6.73%	8.80%
Proj. EPS Growth (F1/F0)	9.13%	7.04%	-10.80%	61.26%	-32.02%	-26.44%
Curr. Cash Flow Growth	-2.30%	4.64%	5.46%	-3.18%	-11.01%	4.64%
Hist. Cash Flow Growth (3-5 yrs)	9.78%	15.30%	8.55%	15.30%	5.98%	7.12%
Current Ratio	1.21	1.21	1.29	0.72	1.44	1.22
Debt/Capital	62.37%	70.51%	45.14%	57.76%	40.77%	88.96%
Net Margin	-0.50%	1.32%	10.53%	-8.88%	3.21%	5.73%
Return on Equity	17.05%	17.05%	16.06%	7.15%	29.94%	152.81%
Sales/Assets	1.06	1.06	0.55	0.48	3.27	1.33
Proj. Sales Growth (F1/F0)	2.69%	1.48%	-2.66%	7.37%	-3.97%	0.26%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	1.23%	1.23%	0.04%	2.35%	0.35%	3.47%
1 Week Price Chg	3.70%	3.81%	0.92%	3.55%	0.03%	6.20%
4 Week Price Chg	11.43%	8.75%	2.71%	6.07%	-1.20%	13.95%
12 Week Price Chg	14.69%	16.18%	19.78%	61.36%	16.78%	18.40%
52 Week Price Chg	-10.84%	-8.31%	-6.05%	2.50%	-6.56%	13.88%
20 Day Average Volume	2,458,300	618,602	2,819,961	597,818	1,921,267	4,576,719
(F1) EPS Est 1 week change	-1.14%	-0.18%	0.00%	0.00%	0.00%	-0.36%
(F1) EPS Est 4 week change	-3.96%	-0.37%	0.00%	0.00%	0.00%	-0.73%
(F1) EPS Est 12 week change	-14.39%	-11.18%	-12.72%	27.16%	-22.71%	-28.42%
(Q1) EPS Est Mthly Chg	7.11%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
Growth Score	A
Momentum Score	F
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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