

## Knight-Swift(KNX)

**\$36.62** (As of 01/03/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 01/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

### Summary

Akin to the past few quarters, we expect Knight-Swift's fourth-quarter 2019 results to have been hurt by lackluster freight demand. Due to low demand, the company is suffering from oversupply of truckload capacity. In fact, Knight-Swift' trimmed its fourth-quarter earnings per share forecast due to this excess supply scenario. Knight-Swift now expects fourth-quarter 2019 adjusted earnings per share to have been between 50 and 52 cents (earlier expectation was in the 62-65 cents band). Consequently, fourth-quarter revenues at its trucking unit is likely to have been hurt. High capital expenditures are also hurting the bottom line. The fact that the Zacks Consensus Estimate for 2020 earnings has been revised downward over the past 60 days highlights the negativity surrounding the stock. However, we like the efforts to reward its shareholders.

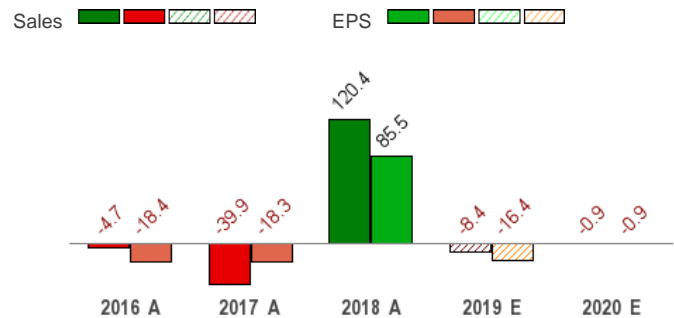
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$39.37 - \$25.64</b>
20 Day Average Volume (sh)	<b>1,839,199</b>
Market Cap	<b>\$6.2 B</b>
YTD Price Change	<b>2.2%</b>
Beta	<b>1.87</b>
Dividend / Div Yld	<b>\$0.24 / 0.7%</b>
Industry	<b><a href="#">Transportation - Truck</a></b>
Zacks Industry Rank	<b>Bottom 9% (230 out of 252)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>0.0%</b>
Last Sales Surprise	<b>-2.1%</b>
EPS F1 Est- 4 week change	<b>-3.6%</b>
Expected Report Date	<b>02/04/2020</b>
Earnings ESP	<b>0.0%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,094 E	1,180 E	1,209 E	1,238 E	4,850 E
2019	1,205 A	1,242 A	1,201 A	1,226 E	4,896 E
2018	1,271 A	1,332 A	1,347 A	1,395 A	5,344 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.40 E	\$0.52 E	\$0.54 E	\$0.67 E	\$2.12 E
2019	\$0.55 A	\$0.58 A	\$0.48 A	\$0.51 E	\$2.14 E
2018	\$0.44 A	\$0.56 A	\$0.65 A	\$0.93 A	\$2.56 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>14.4</b>
P/E F1	<b>17.3</b>
PEG F1	<b>1.2</b>
P/S TTM	<b>1.2</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

## Overview

Knight-Swift Transportation Holdings Inc. is the largest truckload carrier in North America. The company based in Phoenix, AZ, also provides transportation solutions and aims to grow through mergers and acquisitions. It serves customers throughout North America, providing them with numerous efficient and low-cost truckload transportation, intermodal and logistics services.

On Sep 8, 2017, Knight Transportation, Inc. merged with Swift Transportation Company.

From the first quarter of 2019, the company started reporting through 3 segments — Trucking, Logistics and Intermodal to allow greater comparability across the industry.

### Trucking Segment

The trucking segment includes revenues from Knight Trucking, Swift Truckload, Swift Dedicated and Swift Refrigerated segments. The consolidated segment offers dry van, refrigerated and drayage services. Customers usually pay a pre-decided rate per mile or per load for availing the trucking services. The segment also generates revenues by charging for tractor and trailer detention, loading and unloading activities, dedicated services and other specialized services as well as through a fuel surcharge.

### Logistics Segment

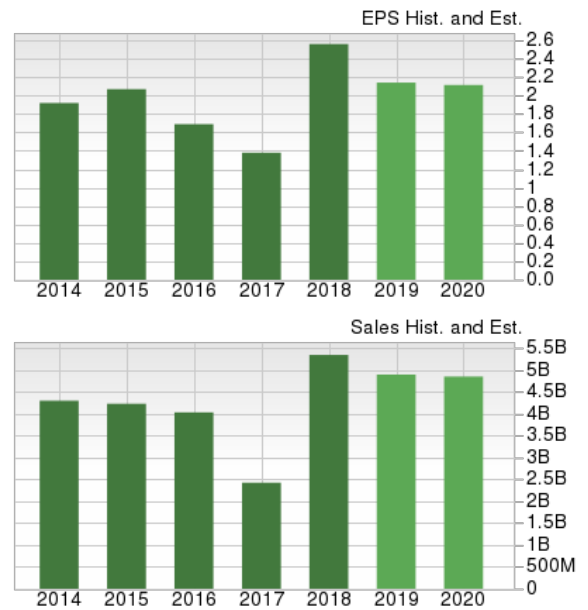
The logistics segment offers logistics, freight management and other non-trucking services to customers. The unit also generates revenues by offering specialized logistics solutions such as origin management, surge volume, disaster relief, special projects and other logistic needs.

### Intermodal Segment

The intermodal segment generates revenues by moving freight over the rail in containers and other trailing equipment. Revenues are also generated from drayage to transport loads between railheads and customer locations. The segment enables better customer service in long haul lanes and minimizes the company's investment in fixed assets.

The Trucking, Intermodal and Logistics segments recorded revenues of \$878.38 million (excluding fuel surcharge and intersegment transactions), \$108.76 million (excluding intersegment transactions) and \$83.63 million (before intersegment transactions) respectively in the third quarter of 2019.

The company's fiscal year coincides with the calendar year.



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## Reasons To Sell:

- ▼ Dismal freight demand coupled with an oversupply of truckload capacity has been hurting Knight-Swift's performance for a while now. The scenario is drab for the final quarter of 2019 as well as evidenced by the company's decision, announced in December, to cut earnings per share projections for the December quarter. The company now projects fourth-quarter adjusted earnings per share to have been between 50 and 52 cents (earlier expectation was in the 62-65 cents band). The company blamed the persistent oversupply of truckload capacity in its industry as the primary reason for a trimmed outlook.
- ▼ Deteriorating revenues at the company's trucking segment (major source of revenues) raise serious concerns. Evidently, with 6.6% decrease in trucking revenues in the first nine months of 2019, the company's top line declined 7.6%. Segmental results were hampered by a decrease in miles per tractor and lower average tractor count.
- ▼ High capital expenditures are also hurting the bottom line. For 2019, it expects capital expenditures (net cash) in the \$550-\$575 million range, higher than \$530 million incurred in 2018. Additionally, the company's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 8% compares unfavorably with its industry's 13.8% ROE.

The deteriorating freight scenario in North America is a major concern.

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## Risks

- Knight-Swift is being aided by efficient cost-control measures and enhanced safety procedures. Evidently, total operating expenses declined 7.5% year over year in the first nine months of 2019. Moreover, improvement in adjusted operating ratio across the trucking and logistics segments are an added positive. We are also impressed by the company's efforts to add shareholder value via dividends and buybacks. During the first nine months of 2019, Knight-Swift repurchased shares worth \$86.9 million and returned \$31.2 million to shareholders through dividend payments.
  - The company aims to grow through mergers and acquisitions. To this end, the company acquired Abilene Motor Express in March 2018. The buyout is a huge positive and has grown the business with 400 trucks as well as several drivers. Moreover, annual revenues in 2018 were boosted significantly. The company intends to pursue acquisition-related opportunities going forward as well.
  - Knight-Swift's measures to reduce its debt levels are also encouraging. As an evidence, the company's long-term debt-to-equity ratio (expressed as a percentage) currently stands at 14.7, lower than the industry's average of 20.2.
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## Last Earnings Report

### In line Earnings at Knight-Swift in Q3

The company's third-quarter earnings (excluding 4 cents from non-recurring items) of 48 cents were in line with the Zacks Consensus Estimate. However, the bottom line decreased 26.2% year over year. Total revenues of \$1,200.5 million lagged the Zacks Consensus Estimate of \$1,225.7 million and also declined 10.8% year over year.

Third-quarter results were affected primarily by low revenues at the trucking and intermodal segment. Notably, increased competition in the intermodal space induced 10.3% and 6.8% reduction in volumes and revenue per load, respectively. Effective tax rate in the third quarter was unchanged year over year at 24.6%. For the full year, the same (before discrete items) is still expected in the 25-26% range.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-2.06%
EPS Surprise	0.00%
Quarterly EPS	0.48
Annual EPS (TTM)	2.54

### Segmental Results

Revenues in the Trucking segment totaled (excluding fuel surcharge and intersegment transactions) \$876.38 million, down 6.4% year over year. Results were hampered by 6.4% decrease in average revenue per tractor (miles per tractor declined 4.1%). Adjusted segmental operating income fell 22.1% to \$109.76 million. Adjusted operating ratio (operating expenses as a percentage of revenues) also deteriorated to 87.5% in the third quarter from 84.9% a year ago. Notably, lower value of this key metric bodes well for the company.

Revenues in the Logistics segment (before intersegment transactions) amounted to \$83.63 million, declining 24.9% year over year due to 25% fall in brokerage revenues. While adjusted operating ratio deteriorated 470 basis points (bps) to 95.6%, segmental operating income plunged 63.6%.

Revenues in the Intermodal segment (excluding intersegment transactions) totaled \$108.76 million, down 16.4% year over year as a result of 10.3% fall in load counts. Segmental adjusted operating ratio of 102.4% deteriorated 980 bps while operating loss came in at \$2,652 million against operating income of \$9,688 million reported a year ago.

### Operating Results

Total operating expenses decreased 8.7% year over year to \$1.1 billion. Adjusted operating ratio (defined as operating expenses as a percentage of revenues) deteriorated to 89.6% from 87.1% reported in the year ago quarter. Knight-Swift's adjusted operating income declined 27.4% year over year to \$113.71 million due to weaker segmental revenues.

### Liquidity

The company exited the third quarter with cash and cash equivalents of \$94 million compared with \$82.49 million at the end of 2018. Long-term debt (less current portion) amounted to \$364.77 million compared with \$364.59 million in December 2018.

### Outlook

The company expects seasonal improvement in demand during the ongoing quarter albeit lower than previously anticipated. In 2020, it hopes to see a better freight environment.

## Recent News

### Q4 Guidance - Dec 19, 2019

Knight-Swift expects fourth-quarter 2019 adjusted earnings per share between 50 and 52 cents (earlier expectation was in the 62-65 cents band). The company blamed the persistent oversupply of truckload capacity in its industry as the primary reason for a trimmed outlook. Due to the excess supply scenario, the seasonal improvement in the freight market from the third to the fourth quarter has been subdued in nature, resulting in lower-than-expected seasonal high-yield freight opportunities. Consequently, the sequential rate increases were lesser than anticipated which, in turn, have dented revenues and operating income for the December quarter.

### Dividend Update - Nov 7, 2019

The company's board approved a quarterly cash dividend of 6 cents per share (24 cents on an annualized basis). The dividend will be paid on Dec 27, 2019 to shareholders of record on Dec 3.

## Valuation

Knight-Swift shares are up 33.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 25.2% and 15.8%, respectively, in a year's time. The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 17.28X forward 12-month price-to-earnings, which compares to 19.04X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.77X and as low as 7.84X, with a 5-year median of 13.97X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$31 price target reflects 14.62X forward 12-month earnings.

The table below shows summary valuation data for KNX

Valuation Multiples - KNX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.28	19.04	13.01	18.71
	5-Year High	39.77	25.09	16.98	19.34
	5-Year Low	7.84	13.24	10.46	15.16
	5-Year Median	13.97	17.88	13.1	17.44
EV/EBITDA TTM	Current	6.72	9.09	7.89	11.99
	5-Year High	NA	23.44	11.1	12.86
	5-Year Low	3.85	5.75	5.98	8.48
	5-Year Median	6.58	8.44	7.43	10.67
P/S F12M	Current	1.29	1.46	1.13	3.47
	5-Year High	1.82	1.57	1.44	3.47
	5-Year Low	0.39	0.79	1.03	2.54
	5-Year Median	0.84	1.18	1.24	3

As of 01/03/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 252)



## Top Peers

ArcBest Corporation (ARCB)	Neutral
Heartland Express, Inc. (HTLD)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Landstar System, Inc. (LSTR)	Neutral
Marten Transport, Ltd. (MRTN)	Neutral
Schneider National, Inc. (SNDR)	Neutral
Werner Enterprises, Inc. (WERN)	Neutral
Covenant Transportation Group, Inc. (CVTI)	Underperform

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	KNX Underperform	X Industry	S&P 500	JBHT Neutral	LSTR Neutral	WERN Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Market Cap	6.25 B	935.69 M	23.66 B	12.47 B	4.47 B	2.49 B
# of Analysts	9	4.5	13	7	10	9
Dividend Yield	0.66%	0.36%	1.79%	0.89%	0.65%	1.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Cash/Price	0.02	0.03	0.04	0.01	0.07	0.01
EV/EBITDA	6.85	6.27	13.88	12.26	11.24	6.03
PEG Ratio	1.15	1.56	1.99	1.31	1.56	3.16
Price/Book (P/B)	1.11	2.42	3.36	5.69	5.92	2.34
Price/Cash Flow (P/CF)	7.36	6.93	13.62	11.97	15.22	6.38
P/E (F1)	17.27	18.19	18.74	19.63	18.75	15.58
Price/Sales (P/S)	1.24	1.00	2.67	1.38	1.05	1.00
Earnings Yield	5.79%	5.36%	5.32%	5.09%	5.33%	6.42%
Debt/Equity	0.15	0.26	0.72	0.59	0.08	0.26
Cash Flow (\$/share)	4.98	4.98	6.94	9.77	7.45	5.64
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	2.66%	11.09%	10.56%	12.15%	18.15%	11.09%
Proj. EPS Growth (F1/F0)	-1.19%	10.44%	7.41%	10.21%	2.65%	-1.47%
Curr. Cash Flow Growth	145.02%	43.50%	14.83%	33.00%	50.82%	29.53%
Hist. Cash Flow Growth (3-5 yrs)	15.83%	11.52%	9.00%	12.27%	16.49%	9.10%
Current Ratio	1.29	1.31	1.23	1.29	2.01	1.31
Debt/Capital	12.84%	22.67%	42.92%	37.09%	7.51%	20.52%
Net Margin	7.80%	5.46%	11.08%	5.46%	5.76%	6.95%
Return on Equity	7.99%	13.93%	17.10%	28.45%	33.90%	15.02%
Sales/Assets	0.62	1.52	0.55	1.70	3.13	1.17
Proj. Sales Growth (F1/F0)	-0.93%	2.13%	4.20%	6.11%	0.04%	1.73%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Daily Price Chg	-1.00%	-0.61%	-0.61%	-0.42%	-0.08%	-0.91%
1 Week Price Chg	0.00%	-0.07%	0.13%	-0.03%	-0.10%	-0.74%
4 Week Price Chg	1.27%	2.45%	2.60%	3.15%	3.11%	-0.28%
12 Week Price Chg	5.26%	-0.97%	8.87%	8.78%	2.26%	3.93%
52 Week Price Chg	45.26%	17.00%	29.34%	28.76%	19.59%	23.41%
20 Day Average Volume	1,839,199	200,989	1,603,615	790,694	190,492	349,874
(F1) EPS Est 1 week change	2.50%	0.10%	0.00%	0.00%	0.00%	0.92%
(F1) EPS Est 4 week change	-3.64%	-0.50%	0.00%	-0.95%	-0.28%	0.01%
(F1) EPS Est 12 week change	-12.74%	-6.22%	-0.57%	-1.90%	-4.44%	-5.18%
(Q1) EPS Est Mthly Chg	-5.33%	-1.38%	0.00%	-2.72%	1.29%	-3.08%

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## 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.

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### 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	B
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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