

Knight-Swift(KNX)

\$38.16 (As of 02/06/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

Knight-Swift is plagued by weak trucking revenues (major revenue generating segment) as a result of sluggish freight demand. Evidently, trucking revenues declined 7.9% in 2019, causing a 9.4% decrease in the top line. The company's bleak earnings view for the first quarter and the full year also raises concerns. Further adding to its woes, are high capital expenditures. During 2019, capex was \$570 million compared with \$530 million incurred in 2018. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward in the past 60 days. However, efficient cost-control measures are aiding the company. Its debt-reduction efforts (lowered debt by \$88 million in 2019) are also appreciative. Consequently, shares of the company have outperformed its industry in a year's time.

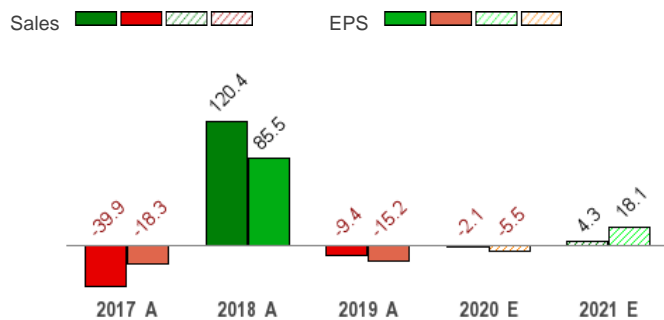
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.50 - \$27.03
20 Day Average Volume (sh)	1,920,926
Market Cap	\$6.5 B
YTD Price Change	6.5%
Beta	1.82
Dividend / Div Yld	\$0.24 / 0.6%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 7% (238 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.8%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	04/22/2020
Earnings ESP	0.3%
P/E TTM	17.7
P/E F1	18.6
PEG F1	1.2
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,104 E	1,196 E	1,232 E	1,274 E	4,946 E
2020	1,091 E	1,165 E	1,193 E	1,228 E	4,742 E
2019	1,205 A	1,242 A	1,201 A	1,197 A	4,844 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.40 E	\$0.57 E	\$0.58 E	\$0.71 E	\$2.42 E
2020	\$0.37 E	\$0.48 E	\$0.52 E	\$0.67 E	\$2.05 E
2019	\$0.55 A	\$0.58 A	\$0.48 A	\$0.55 A	\$2.17 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 02/06/2020. The reports text is as of 02/07/2020.

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 primarily 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

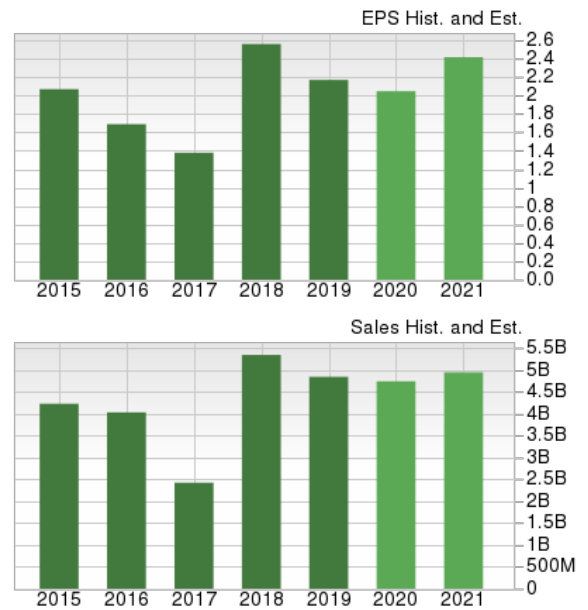
The logistics segment offers logistics, freight management and other non-trucking services to customers. The unit also generates revenues by offering specialized logistics solutions such as origin management, surge volume, disaster relief, special projects and other logistic needs.

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.

During 2019, the Trucking, Intermodal and Logistics segments contributed 81.6%, 9.4% and 7.3% to the top line, respectively.

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



Reasons To Sell:

- ▼ Dismal freight demand coupled with an oversupply of truckload capacity hurt Knight-Swift's performance significantly in 2019. Consequently, trucking revenues declined 7.9% year over year in the period. With revenues from the trucking segment constituting the bulk of the company's revenues, total revenues decreased 9.4%. Although there are signs of lower capacity for 2020, the freight scenario is not likely to show much improvement in the first half. Consequently, revenue per loaded mile is expected to be negative year over year in the first and the second quarter.
- ▼ Anticipating persistence of the sluggish freight scene, the company provided a bleak outlook for the first quarter as well as the full year. For the first quarter, adjusted earnings per share are expected between 35 cents and 38 cents, much lower than 55 cents reported in the first quarter of 2019. The same for 2020 is predicted in the range of \$2-\$2.15. The mid-point of the guided range indicates a decline from \$2.17 achieved in 2019.
- ▼ High capital expenditures are also hurting the bottom line. During 2019 capital expenditures (net cash) were \$570 million, higher than \$530 million incurred in 2018. For 2020, the same is expected in the range of \$550-\$575 million with investments primarily in replacing the existing tractors and trailers as well as in terminal network and driver amenities.
- ▼ The company's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 6.7% compares unfavorably with its industry's 13.9% ROE. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward in the past 60 days.

The company's earnings view for the first quarter of 2020 and the full year raises concerns.

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 2019. We are also impressed by the company's efforts to add shareholder value via dividends and buybacks. During 2019, Knight-Swift repurchased shares worth \$87 million and returned \$41 million to shareholders through dividend payments.
 - The phase one trade deal signed in January is expected to bring about some improvement in freight demand in the latter half of 2020. Multiple signs of capacity reductions, such as significantly less new truck and trailer orders as well as higher new truck order cancellations further add to this positivity. With the likely improvement in the freight environment during the second half, Knight-Swift anticipates miles per tractor to increase year over year in the period. We are also encouraged by the company's strategy 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. The company intends to pursue acquisition-related opportunities going forward as well.
 - Knight-Swift's measures to reduce its debt levels are also encouraging. During 2019, the company lowered its net debt by \$88 million. Moreover, the company's long-term debt-to-equity ratio (expressed as a percentage) currently stands at 7.6, lower than the industry's average of 20.2.
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Last Earnings Report

Earnings Beat at Knight-Swift in Q4

Knight-Swift's fourth-quarter 2019 adjusted earnings (excluding 16 cents from non-recurring items) of 55 cents beat the Zacks Consensus Estimate of 51 cents. However, the bottom line plunged 40.9% year over year due to persistent weakness in the freight environment and overcapacity of trucks in the market. Additionally, total revenues of \$1,196.8 million lagged the consensus mark of \$1,225.8 million and also decreased 14.2% year over year with sluggish revenues at each of its three segments.

Effective tax rate came in at 27.2% compared with 25% in the fourth quarter of 2018. For 2020, the same (before discrete items) is expected to be 25.5-27%.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-2.37%
EPS Surprise	7.84%
Quarterly EPS	0.55
Annual EPS (TTM)	2.16

Segmental Results

Revenues in the Trucking segment totaled (excluding fuel surcharge and intersegment transactions) \$861.43 million, down 11.2% year over year. Results were hampered by 10.6% decrease in average revenue per tractor (miles per tractor declined 5.4% in the quarter). Adjusted segmental operating income also dropped 35.8% to \$118.95 million. Adjusted operating ratio (operating expenses as a percentage of revenues) deteriorated 530 basis points (bps) to 86.2% in the quarter under discussion. Notably, lower value of this key metric bodes well for the company.

Revenues in the Logistics segment (before intersegment transactions) amounted to \$92.76 million, down 30.2% year over year due to 30.8% decline in brokerage revenues. While adjusted operating ratio deteriorated 360 bps to 93%, segmental operating income slumped 53.8% to \$6.49 million.

Revenues in the Intermodal segment (excluding intersegment transactions) totaled \$111.82 million, dropping 18.7% year over year as a result of 9.4% fall in load counts. Segmental adjusted operating ratio came in at 99.5%, deteriorating 910 bps while operating income contracted 95.4% to \$0.6 million.

Operating Results

Total operating expenses decreased 7.6% year over year to \$1.1 billion. Adjusted operating ratio (defined as operating expenses as a percentage of revenues) deteriorated to 87.8% from 82.5% in the year-ago quarter. Knight-Swift's adjusted operating income declined 40.5% year over year to \$131.97 million due to excess truck capacity amidst the soft freight environment and intense competition in the intermodal market.

Liquidity

The company exited the fourth quarter with cash and cash equivalents of \$159.72 million compared with \$82.49 million at the end of 2018. The company did not have any long-term debt (less current portion) as of Dec 31, 2019. During 2019, it repurchased shares worth \$86.9 million and returned \$41.4 million to shareholders through dividends.

Outlook

For 2020, adjusted earnings per share are anticipated to be \$2-\$2.15. The company expects the freight environment to improve in the second half of 2020 owing to capacity rationalization and other factors might have also boosted the stock. Even though the freight scene remains competitive, Knight-Swift believes that "evidence of capacity rationalization is mounting".

For the first quarter of 2020, adjusted earnings per share are estimated between 35 cents and 38 cents compared with 42-46 cents expected earlier.

For 2020, capital expenditures are predicted to be \$550-\$575 million with investments primarily in replacing the existing tractors and trailers as well as in terminal network and driver amenities.

Valuation

Knight-Swift shares are up 22.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 15% and 5.8%, respectively, in a year's time. The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 18.3X forward 12-month price-to-earnings, which compares to 20.5X for the Zacks sub-industry, 13.2X for the Zacks sector and 19.17X 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 \$32 price target reflects 15.31X 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 F 12M	Current	18.3	20.5	13.2	19.17
	5-Year High	39.77	25.09	17	19.34
	5-Year Low	7.84	13.24	10.48	15.18
	5-Year Median	13.97	17.86	13.2	17.46
EV/EBITDA TTM	Current	6.96	8.91	7.7	11.95
	5-Year High	99.88	23.44	11.08	12.85
	5-Year Low	3.85	5.96	6	8.49
	5-Year Median	6.57	8.46	7.41	10.66
P/S F 12M	Current	1.36	1.52	1.13	3.55
	5-Year High	1.82	1.57	1.44	3.55
	5-Year Low	0.39	0.79	1.02	2.54
	5-Year Median	0.85	1.18	1.22	3

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (238 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	KNX Underperform	X Industry	S&P 500	JBHT Neutral	LSTR Underperform	WERN Neutral
VGM Score	C	-	-	B	C	B
Market Cap	6.51 B	897.46 M	24.40 B	11.94 B	4.49 B	2.74 B
# of Analysts	9	4	13	10	10	8
Dividend Yield	0.63%	0.41%	1.75%	0.96%	0.65%	0.91%
Value Score	C	-	-	C	C	B
Cash/Price	0.03	0.03	0.04	0.00	0.08	0.01
EV/EBITDA	6.65	6.46	14.17	11.82	11.22	6.46
PEG Ratio	1.24	1.74	2.05	1.32	1.74	7.55
Price/Book (P/B)	1.15	2.41	3.31	5.27	6.23	2.47
Price/Cash Flow (P/CF)	7.79	7.14	13.63	11.59	16.51	6.57
P/E (F1)	18.53	18.69	19.08	19.87	20.83	17.60
Price/Sales (P/S)	1.34	1.10	2.67	1.30	1.10	1.11
Earnings Yield	5.37%	5.29%	5.24%	5.03%	4.80%	5.68%
Debt/Equity	0.08	0.20	0.71	0.57	0.10	0.20
Cash Flow (\$/share)	4.90	4.92	6.89	9.67	6.90	6.02
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	3.05%	11.09%	10.80%	11.91%	18.59%	11.09%
Proj. EPS Growth (F1/F0)	-5.63%	7.37%	7.23%	15.32%	-4.46%	-5.86%
Curr. Cash Flow Growth	-5.66%	8.77%	9.51%	-2.99%	-8.92%	3.80%
Hist. Cash Flow Growth (3-5 yrs)	13.36%	10.03%	8.55%	9.02%	10.35%	9.10%
Current Ratio	0.90	1.50	1.20	1.43	1.80	1.51
Debt/Capital	7.09%	20.83%	42.90%	36.37%	8.87%	16.84%
Net Margin	6.38%	5.58%	11.76%	5.99%	5.58%	6.78%
Return on Equity	6.68%	12.85%	16.98%	25.65%	31.05%	14.93%
Sales/Assets	0.59	1.47	0.54	1.70	2.96	1.15
Proj. Sales Growth (F1/F0)	-2.11%	2.65%	4.15%	6.96%	-1.02%	2.02%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	-0.37%	-0.04%	-0.11%	-0.09%	-0.12%	4.13%
1 Week Price Chg	0.05%	-4.36%	-2.60%	-6.72%	-2.73%	-3.23%
4 Week Price Chg	3.08%	-1.85%	1.51%	-5.88%	0.45%	8.44%
12 Week Price Chg	0.90%	-8.99%	5.63%	-4.14%	-1.38%	5.07%
52 Week Price Chg	20.38%	-0.79%	17.01%	2.90%	9.43%	14.62%
20 Day Average Volume	1,920,926	222,759	1,961,054	932,622	315,241	425,502
(F1) EPS Est 1 week change	0.28%	0.00%	0.00%	0.00%	-6.61%	0.85%
(F1) EPS Est 4 week change	-1.70%	-2.53%	-0.00%	-4.65%	-9.10%	-1.56%
(F1) EPS Est 12 week change	-6.17%	-6.24%	-0.16%	-6.30%	-10.46%	-2.64%
(Q1) EPS Est Mthly Chg	-7.44%	-8.21%	0.00%	-8.98%	-15.86%	-4.17%

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	C
Growth Score	B
Momentum Score	D
VGM Score	C

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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