

Knight-Swift(KNX)

\$44.80 (As of 07/24/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

Summary

Knight-Swift reported better-than-expected earnings per share in the second quarter of 2020. Results were aided by the efficient cost-control measures. Owing to its operational discipline, adjusted operating ratio improved to 87.6% in the June quarter from 87.8% in the year-ago quarter. The earnings guidance for full-year 2020 is also encouraging. The company's measures to reward shareholders through dividends and buybacks are appreciative. Notably, Knight-Swift announced a 33.3% dividend hike earlier this year. Its free cash flow generation also supports shareholder friendly activities. The positivity surrounding the stock is evident from the fact that the Zacks Consensus Estimate for 2020 earnings has been revised upward over the past 60 days. However, the coronavirus-led weakness in the top line is concerning.

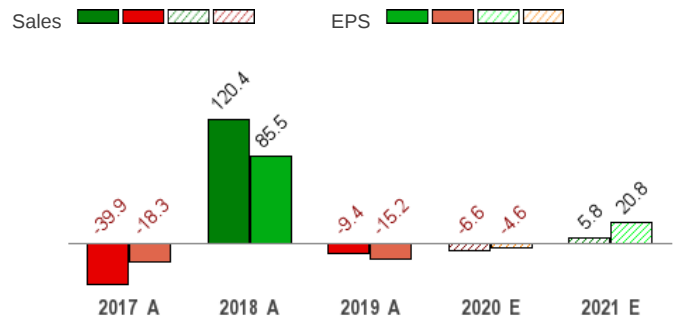
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.32 - \$27.54
20 Day Average Volume (sh)	1,705,540
Market Cap	\$7.7 B
YTD Price Change	25.9%
Beta	1.36
Dividend / Div Yld	\$0.32 / 0.7%
Industry	Transportation - Truck
Zacks Industry Rank	Top 15% (37 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	62.9%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	2.3%
Expected Report Date	NA
Earnings ESP	0.4%
P/E TTM	22.1
P/E F1	21.6
PEG F1	1.4
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,173 E	1,185 E	1,187 E	1,235 E	4,789 E
2020	1,125 A	1,061 A	1,099 E	1,143 E	4,525 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	\$0.53 E	\$0.60 E	\$0.63 E	\$0.70 E	\$2.50 E
2020	\$0.44 A	\$0.57 A	\$0.55 E	\$0.62 E	\$2.07 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 07/24/2020. The reports text is as of 07/27/2020.

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

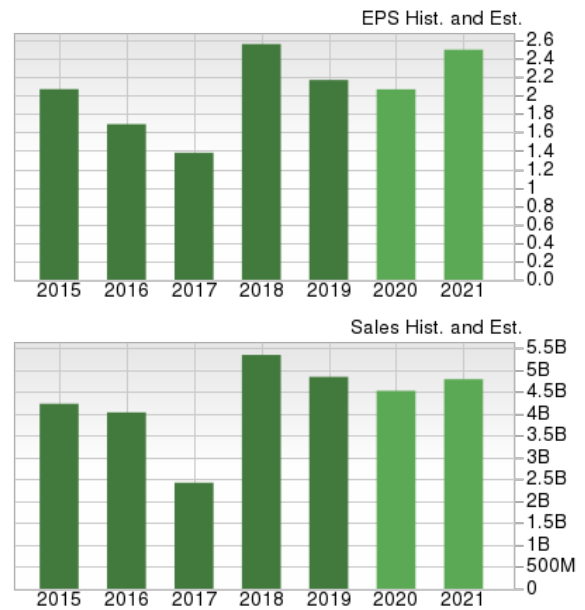
The logistics segment offers logistics, freight management and other non-trucking services to customers. The unit also generates revenues by offering specialized logistics solutions such as origin management, surge volume, disaster relief, special projects and other logistic needs.

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 Buy:

- ▲ Knight-Swift is being aided by efficient cost-control measures and enhanced safety procedures. Evidently, total operating expenses declined 10.8% year over year in first-half 2020. We are also impressed by the company's efforts to add shareholder value via dividends and buybacks. In February, the company's board approved a 33.3% hike in quarterly cash dividend to 8 cents per share (annually 32 cents). During the first half of 2020, the company returned \$27.7 million to its shareholders in the form of dividends and \$34.6 million through share buybacks. Its free cash flow generation supports shareholder friendly activities. The company generated free cash flow of \$188.2 million in first-half 2020.
- ▲ The company's commentary that freight demand "gradually strengthened" throughout the June quarter is encouraging. We believe that owing to this improvement the company reinstated the full-year 2020 earnings guidance. It now expects adjusted earnings per share in the \$2.15-\$2.30 range, the mid point of which is above the mid point of the original guidance of \$2 to \$2.15, which was withdrawn on the March quarter conference call due to coronavirus-led uncertainty.
- ▲ 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 is expected to pursue acquisition-related opportunities going forward as well. Moreover, Knight-Swift's cash and cash equivalents stood at \$166 million at the end of the June quarter, way above the current debt figure of \$66 million. This implies that the company has sufficient cash to meet its current debt obligations.

The company's efforts to control costs and reward its shareholders are encouraging.

Risks

- Weak freight demand, worsened by coronavirus, hurt Knight-Swift's performance in the first half of 2020. Consequently, trucking revenues (excluding fuel surcharge and inter-segment transactions) declined 7.3% year over year during the first six months of 2020. With revenues from the trucking segment constituting the bulk of the company's revenues, the top line declined 10.7% in the period. The adversities may persist for a while now given the global economic slowdown.
 - The trucking segment apart, revenues also declined in the other two sectors in second-quarter 2020. Revenues in the Logistics segment (before inter-segment transactions) amounted to \$67.07 million, down 16.5% year over year due to 14.2% decrease in brokerage revenues. Revenues in the Intermodal segment (excluding inter-segment transactions) totaled \$82.7 million, down 29.8% year over year as a result of load count and revenue per load declining 23.9% and 7.8% respectively.
 - The company expects the weak used equipment market to continue to hurt gains on sale in the second half of 2020. Additionally, it expects a challenging environment pertaining to driver sourcing and retaining. The company's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 6.1% compares unfavorably with its industry's 12.7% ROE.
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Last Earnings Report

Earnings Beat at Knight-Swift in Q2

Knight-Swift 's earnings (excluding 10 cents from non-recurring items) of 57 cents per share beat the Zacks Consensus Estimate of 35 cents. However, the bottom line dipped 1.7% year over year due to persistent weakness in the freight environment, aggravated by the coronavirus pandemic.

Meanwhile, total revenues of \$1,060.7 million missed the Zacks Consensus Estimate of \$1,078.6 million and fell 14.6% year over year with sluggish revenues at each of its three segments.

Total operating expenses declined 15.4% year over year to \$958.53 million. Adjusted operating ratio (operating expenses as a percentage of revenues) improved to 87.6% from 87.8% in the year-ago quarter. Lower the value of the metric, the better. Knight-Swift's adjusted operating income declined 9.5% year over year to \$123.96 million.

The company exited the second quarter with cash and cash equivalents of \$117.76 million compared with \$159.72 million at the end of 2019. During the first half of 2020, the company returned \$27.7 million to its shareholders in the form of dividends and \$34.6 million through share buybacks.

Segmental Results

Revenues in the Trucking segment totaled (excluding fuel surcharge and inter-segment transactions) \$816.03 million, down 9.4% year over year. Results were hampered by 6.5% decline in average revenue per tractor. Average revenue per tractor was weak in the quarter due to a 3.9% decrease in miles per tractor. Adjusted segmental operating income also dropped 7.9% to \$118.17 million. Adjusted operating ratio (operating expenses as a percentage of revenues) improved 30 basis points (bps) to 85.5%.

Revenues in the Logistics segment (before inter-segment transactions) amounted to \$67.07 million, down 16.5% year over year due to 14.2% decrease in brokerage revenues. While adjusted operating ratio deteriorated 180 bps to 95.5%, segmental operating income slumped 39.5% to \$3.04 million.

Revenues in the Intermodal segment (excluding inter-segment transactions) totaled \$82.7 million, down 29.8% year over year as a result of load count and revenue per load declining 23.9% and 7.8% respectively. Segmental adjusted operating ratio deteriorated 890 bps to 105.3%. Segmental operating loss was \$4.41 million, against operating income of \$4.19 million in the year-ago period.

2020 Outlook

The company expects adjusted earnings per share in the band of \$2.15-\$2.30 for the full year. Net capital expenditures are anticipated between \$500 million and \$525 million with deferral in certain investments. Previously, the same was expected in the range of \$515-\$540 million.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	-1.66%
EPS Surprise	62.86%
Quarterly EPS	0.57
Annual EPS (TTM)	2.04

Recent News

Dividend Update — May 7, 2020

Knight-Swift's board approved a quarterly cash dividend of 8 cents per share, payable to shareholders on Jun 26, 2020, of record as of Jun 5.

Valuation

Knight-Swift shares are up 25.9% and 21.4% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 22% in the year-to-date period, while those in the Zacks Transportation sector are down 9.2%. Over the past year, the Zacks sub-industry is up 34.9% while the sector is down 8.1% respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 6.9% and in the past year.

The stock is currently trading at 19.5X forward 12-month price-to-earnings, which compares to 25.7X for the Zacks sub-industry, 33.55X for the Zacks sector and 22.51X 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 14.72X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$52 price target reflects 22.48X 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	19.5	25.7	33.55	22.51
	5-Year High	39.77	26.44	36.06	22.51
	5-Year Low	7.84	13.23	10.48	15.25
	5-Year Median	14.72	18.05	13.35	17.52
EV/EBITDA TTM	Current	10.37	9.81	7.62	12.19
	5-Year High	13.33	12.98	11.2	12.86
	5-Year Low	7.85	6.76	5.47	8.25
	5-Year Median	10.34	9.45	7.38	10.88
P/S F 12M	Current	1.34	1.11	1.29	3.62
	5-Year High	1.68	1.5	1.42	3.62
	5-Year Low	0.95	0.84	0.85	2.53
	5-Year Median	1.39	1.19	1.2	3.02

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 15% (37 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Marten Transport, Ltd. (MRTN)	Outperform	1
ArcBest Corporation (ARCB)	Neutral	3
Heartland Express, Inc. (HTLD)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Landstar System, Inc. (LSTR)	Neutral	3
Old Dominion Freight Line, Inc. (ODFL)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	3
Werner Enterprises, Inc. (WERN)	Neutral	2

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	KNX	X Industry	S&P 500	JBHT	LSTR	WERN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	2
VGM Score	C	-	-	A	A	A
Market Cap	7.66 B	1.10 B	22.16 B	13.79 B	4.73 B	3.05 B
# of Analysts	6	5	14	10	10	9
Dividend Yield	0.71%	0.33%	1.81%	0.83%	0.60%	0.82%
Value Score	B	-	-	B	B	B
Cash/Price	0.02	0.05	0.06	0.02	0.05	0.02
EV/EBITDA	8.66	6.59	13.07	12.01	13.35	6.59
PEG Ratio	1.44	2.99	3.03	1.88	2.60	7.95
Price/Book (P/B)	1.33	2.29	3.11	5.77	7.29	2.77
Price/Cash Flow (P/CF)	9.21	8.27	12.27	13.52	17.90	7.33
P/E (F1)	21.64	28.22	21.88	28.22	31.23	22.65
Price/Sales (P/S)	1.67	1.00	2.38	1.49	1.26	1.24
Earnings Yield	4.59%	3.34%	4.34%	3.54%	3.20%	4.42%
Debt/Equity	0.06	0.26	0.76	0.55	0.09	0.16
Cash Flow (\$/share)	4.90	4.97	7.01	9.67	6.89	6.02
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	3.82%	14.07%	10.82%	10.97%	18.06%	14.07%
Proj. EPS Growth (F1/F0)	-4.69%	-27.57%	-9.01%	-5.24%	-30.93%	-18.46%
Curr. Cash Flow Growth	-5.66%	-0.06%	5.47%	-2.99%	-8.92%	3.80%
Hist. Cash Flow Growth (3-5 yrs)	13.36%	8.82%	8.55%	9.02%	10.35%	8.62%
Current Ratio	0.85	1.59	1.31	1.59	1.77	1.51
Debt/Capital	5.87%	25.58%	44.41%	35.35%	8.48%	13.70%
Net Margin	6.28%	4.48%	10.46%	5.65%	4.48%	6.26%
Return on Equity	6.14%	10.31%	15.13%	22.88%	26.42%	14.67%
Sales/Assets	0.55	1.44	0.54	1.70	2.82	1.15
Proj. Sales Growth (F1/F0)	-6.58%	-2.95%	-2.06%	-0.14%	-14.91%	-2.95%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	-0.99%	-0.65%	-0.65%	-0.52%	1.20%	0.43%
1 Week Price Chg	2.67%	5.19%	3.82%	7.19%	4.18%	2.61%
4 Week Price Chg	8.96%	9.72%	4.96%	10.47%	12.28%	5.29%
12 Week Price Chg	21.33%	21.38%	9.30%	29.34%	19.42%	10.04%
52 Week Price Chg	23.12%	4.95%	-2.82%	28.05%	10.73%	32.74%
20 Day Average Volume	1,705,540	269,532	2,026,477	930,860	317,149	1,032,131
(F1) EPS Est 1 week change	1.35%	0.00%	0.00%	6.28%	-0.30%	0.00%
(F1) EPS Est 4 week change	2.34%	0.75%	0.15%	7.27%	-0.13%	0.75%
(F1) EPS Est 12 week change	0.13%	-4.54%	-3.24%	3.72%	-14.11%	-1.26%
(Q1) EPS Est Mthly Chg	18.60%	0.67%	0.00%	0.92%	13.43%	0.41%

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	D
Momentum Score	A
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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