

Knight-Swift(KNX)

\$37.63 (As of 04/28/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Shares of Knight-Swift have underperformed its industry in a year's time mainly due to weak trucking revenues as a result of the 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 of 2020 and the full year also raises concerns. Also, coronavirus related woes and high capital expenditures are worrisome. During 2019, capex was \$570 million compared with \$530 million incurred in 2018. However, efficient cost-control measures are aiding the company. Its total operating expenses fell 7.5% year over year in 2019. Its debt-reduction efforts (lowered debt by \$88 million in 2019) are also appreciative. Measures to add shareholder value are also noteworthy. Knight-Swift recently announced a 33.3% dividend hike.

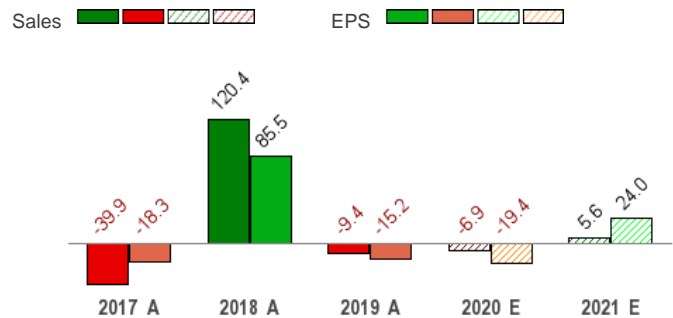
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.46 - \$27.03
20 Day Average Volume (sh)	2,362,148
Market Cap	\$6.4 B
YTD Price Change	5.0%
Beta	1.38
Dividend / Div Yld	\$0.32 / 0.9%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 19% (205 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-12.5%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	18.4
P/E F1	21.5
PEG F1	1.4
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,173 E	1,140 E	1,187 E	1,235 E	4,766 E
2020	1,125 A	1,072 E	1,086 E	1,135 E	4,512 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	\$0.48 E	\$0.51 E	\$0.48 E	\$0.58 E	\$2.17 E
2020	\$0.44 A	\$0.34 E	\$0.42 E	\$0.52 E	\$1.75 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 04/28/2020. The reports text is as of 04/29/2020.

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

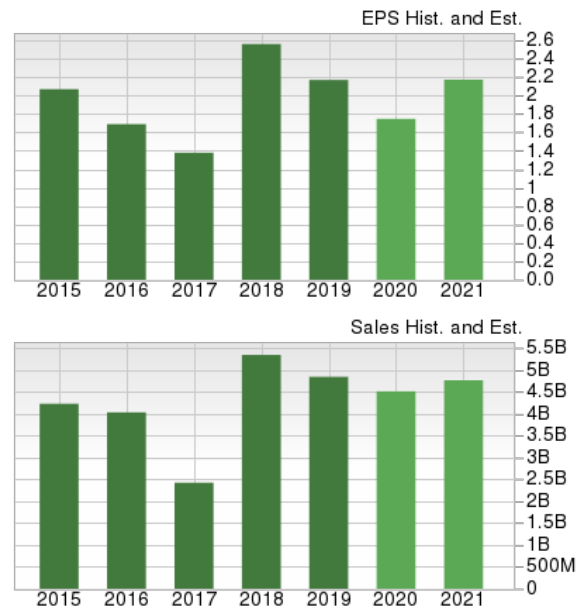
The logistics segment offers logistics, freight management and other non-trucking services to customers. The unit also generates revenues by offering specialized logistics solutions such as origin management, surge volume, disaster relief, special projects and other logistic needs.

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 6% year over year in first quarter 2020. We are also impressed by the company's efforts to add shareholder value via dividends and buybacks. During first quarter 2020, Knight-Swift repurchased shares worth \$34.6 million and returned \$14 million to shareholders through dividend payments.

The company's efforts to control costs and reduce debt are encouraging.

▲ 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 is not a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization currently reads .098. This compares favorably to the figure of .517 for its industry. Its debt-to-equity (expressed as a percentage) is a mere .109, too comparing favorably to its industry's reading. A low debt-to-equity ratio implies that the company is not funding most of its ventures with debt.

Reasons To Sell:

- ▼ Dismal freight demand along with an oversupply of truckload capacity, intense competition in the intermodal market and coronavirus-induced consequences hurt Knight-Swift's performance in first-quarter 2020. Consequently, trucking revenues declined 5.1% year over year during the first quarter. With revenues from the trucking segment constituting the bulk of the company's revenues, the top line declined 6.6% during the first three months of 2020. Moreover, dismal freight scenario stemming from the global pandemic is not likely to show much improvement in the subsequent quarterly results. Consequently, revenue per loaded mile declined 3.1% year over year in the first quarter. Revenue per loaded mile is anticipated to be negative in the second quarter as well
- ▼ Anticipating persistence of the sluggish freight scene due to COVID-19 pandemic, the company has suspended its previously-announced 2020 guidance. Moreover, the coronavirus outbreak is a setback for the company and is expected to delay shipments for a significant part of 2020. In fact, due to uncertainties caused by the coronavirus pandemic, in April the company suspended its previously announced guidance for 2020.
- ▼ The company's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 6.3% compares unfavorably with its industry's 13.2% ROE.

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

Last Earnings Report

Earnings Beat at Knight-Swift in Q1

Knight-Swift's first-quarter 2020 earnings (excluding 6 cents from non-recurring items) of 44 cents beat the Zacks Consensus Estimate of 36 cents. However, the bottom line declined 20% year over year due to persistent weakness in the freight environment amid severe effects of the COVID-19 pandemic. Additionally, total revenues of \$1,124.8 million surpassed the consensus mark of \$1,090.3 million but fell 6.6% year over year with sluggish revenues at each of its three segments. Effective tax rate came in at 27.2% compared with 24% in the first quarter of 2019.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	3.16%
EPS Surprise	22.22%
Quarterly EPS	0.44
Annual EPS (TTM)	2.05

Total operating expenses declined 6% year over year to \$1.02 billion. Adjusted operating ratio (operating expenses as a percentage of revenues) deteriorated to 88.6% from 88.4% in the year-ago quarter. Knight-Swift's adjusted operating income declined 8% year over year to \$116.79 million due to excess truck capacity amid the soft freight environment, intense competition in the intermodal market and coronavirus-induced consequences.

The company exited the first quarter with cash and cash equivalents of \$119.13 million compared with \$159.72 million at the end of 2019. During first-quarter 2020, it repurchased shares worth \$34.6 million and returned \$14 million to shareholders through dividend payouts.

Due to uncertainties caused by the coronavirus pandemic, the company suspended its previously announced guidance for 2020.

Segmental Results

Revenues in the Trucking segment totalled (excluding fuel surcharge and intersegment transactions) \$821.08 million, down 5.1% year over year. Results were hampered by 2.7% decline in average revenue per tractor. Average revenue per tractor was weak in the quarter due to a 3.1% reduction in revenue per loaded mile, excluding fuel surcharge and intersegment transactions). Adjusted segmental operating income also dropped 4.1% to \$110.8 million. Adjusted operating ratio (operating expenses as a percentage of revenues) improved 20 basis points (bps) to 86.5% in the quarter under review. Notably, lower value of this key metric bodes well for the company.

Revenues in the Logistics segment (before intersegment transactions) amounted to \$76.76 million, down 12% year over year due to 10% decline in brokerage revenues. While adjusted operating ratio deteriorated 360 bps to 95.2%, segmental operating income slumped 48.9% to \$3.71 million.

Revenues in the Intermodal segment (excluding intersegment transactions) totaled \$94.6 million, down 18.2% year over year as a result of load count and revenue per load declining 13.2% and 5.8%, respectively. Segmental adjusted operating ratio came in at 102.8%, down 480 bps. Segmental operating loss came in at \$2.74 million.

Recent News

Partnership With Truckstop.com — Feb 18, 2020

Knight-Swift announced a digital freight matching integration with Truckstop.com to facilitate the movement of freight throughout the country. The second phase of this integration is expected to be completed by coming March.

Dividend Hike — Feb 7, 2020

Knight-Swift's board approved a 33.3% hike in quarterly cash dividend to 8 cents per share (annually 32 cents). The amount is payable to shareholders on Mar 27, of record as of Mar 3.

Valuation

Knight-Swift shares are up 5% in the year-to-date period and up 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 0.6% and 23.6% in the year-to-date period respectively. Over the past year, the Zacks sub-industry is up 14.5% while the sector is down 23.1%.

The S&P 500 index is down 10.9% and 2.9% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 19.25X forward 12-month price-to-earnings, which compares to 22.19X for the Zacks sub-industry, 24.19X for the Zacks sector and 20.2X for the S&P 500 index.

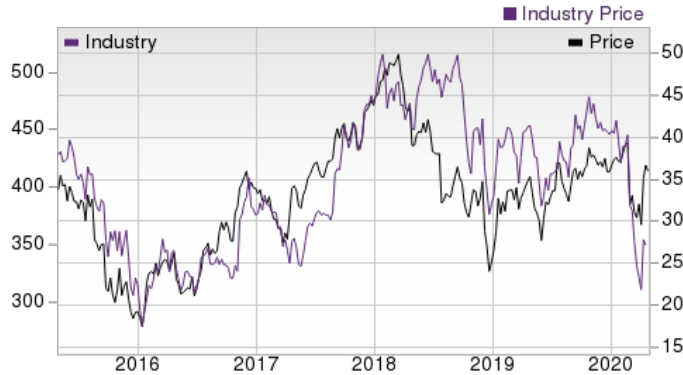
Over the past five years, the stock has traded as high as 39.77X and as low as 7.84X, with a 5-year median of 13.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$40 price target reflects 20.47X forward 12-month earnings.

The table below shows summary valuation data for KNX

Valuation Multiples - KNX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.25	22.19	24.19	20.2
	5-Year High	39.77	25.34	24.19	20.2
	5-Year Low	7.84	13.23	10.48	15.19
	5-Year Median	13.96	17.79	13.17	17.45
EV/EBITDA TTM	Current	7.33	9.27	6.43	10.52
	5-Year High	99.93	21.85	11.16	12.87
	5-Year Low	3.76	5.91	5.61	8.27
	5-Year Median	6.48	8.41	7.38	10.78
P/S F 12M	Current	1.4	1.61	1.05	3.22
	5-Year High	1.82	1.61	1.42	3.44
	5-Year Low	0.39	0.82	0.85	2.54
	5-Year Median	0.94	1.23	1.21	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Covenant Transportation Group, Inc. (CVTI)	Outperform	3
Heartland Express, Inc. (HTLD)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Landstar System, Inc. (LSTR)	Neutral	4
Marten Transport, Ltd. (MRTN)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	4
Werner Enterprises, Inc. (WERN)	Neutral	3
ArcBest Corporation (ARCB)	Underperform	4

Industry Comparison Industry: Transportation - Truck

	KNX	X Industry	S&P 500	JBHT	LSTR	WERN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	B	C	A
Market Cap	6.43 B	887.07 M	20.14 B	11.20 B	4.06 B	2.87 B
# of Analysts	9	4.5	14	10	10	8
Dividend Yield	0.85%	0.42%	2.13%	1.02%	0.70%	0.87%
Value Score	B	-	-	C	D	C
Cash/Price	0.03	0.05	0.06	0.00	0.05	0.01
EV/EBITDA	7.59	6.42	12.15	10.09	11.39	6.42
PEG Ratio	1.47	1.84	2.43	1.58	2.10	7.39
Price/Book (P/B)	1.13	1.99	2.68	4.91	6.47	2.59
Price/Cash Flow (P/CF)	7.68	7.29	10.78	10.90	15.34	6.90
P/E (F1)	22.11	21.53	19.06	23.75	25.24	21.06
Price/Sales (P/S)	1.35	1.02	2.12	1.20	1.02	1.17
Earnings Yield	4.65%	4.46%	5.11%	4.21%	3.96%	4.74%
Debt/Equity	0.11	0.20	0.72	0.57	0.10	0.20
Cash Flow (\$/share)	4.90	4.97	7.01	9.67	6.89	6.02
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	3.82%	12.50%	10.88%	11.64%	18.06%	12.63%
Proj. EPS Growth (F1/F0)	-19.46%	-17.79%	-6.33%	-9.22%	-26.73%	-17.42%
Curr. Cash Flow Growth	-5.66%	-0.06%	5.92%	-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	0.86	1.51	1.23	1.54	1.76	1.51
Debt/Capital	9.81%	19.99%	43.90%	36.34%	8.99%	16.84%
Net Margin	6.02%	5.16%	11.13%	5.71%	5.16%	6.26%
Return on Equity	6.28%	12.35%	16.47%	24.76%	28.99%	14.78%
Sales/Assets	0.58	1.46	0.55	1.73	2.95	1.15
Proj. Sales Growth (F1/F0)	-6.85%	-2.44%	-1.35%	-0.41%	-13.70%	-2.44%
Momentum Score	F	-	-	C	D	A
Daily Price Chg	0.67%	0.70%	1.10%	0.74%	-2.08%	-1.02%
1 Week Price Chg	-1.94%	-1.38%	-1.74%	-5.56%	-0.81%	-0.05%
4 Week Price Chg	14.73%	11.14%	11.80%	14.30%	10.35%	14.62%
12 Week Price Chg	0.67%	-9.97%	-17.28%	-6.95%	-6.48%	10.80%
52 Week Price Chg	12.83%	-23.10%	-10.69%	11.58%	-2.92%	24.06%
20 Day Average Volume	2,362,148	248,678	2,660,864	979,966	344,979	685,098
(F1) EPS Est 1 week change	-9.49%	0.00%	0.00%	0.00%	-17.90%	0.00%
(F1) EPS Est 4 week change	-12.51%	-17.62%	-6.46%	-18.69%	-21.87%	-5.16%
(F1) EPS Est 12 week change	-16.37%	-30.81%	-12.81%	-21.28%	-30.29%	-11.54%
(Q1) EPS Est Mthly Chg	-21.04%	-33.93%	-10.84%	-34.01%	-40.91%	-11.81%

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	B
Momentum Score	F
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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