Landstar System, Inc. (LSTR)

$111.23 (As of 07/01/20)

Price Target (6-12 Months): **$118.00**

Long Term: 6-12 Months	**Zacks Recommendation:** **Neutral**
	(Since: 06/30/20)
	Prior Recommendation: Underperform
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **3-Hold**
	Zacks Style Scores: VGM:A
	Value: B | Growth: B | Momentum: C

Summary

Shares of Landstar have underperformed its industry in a year's time, mainly due to dismal performance of the truck transportation segment. Low truck volumes amid soft freight demand, aggravated by the coronavirus concerns, are responsible for the unit's sub-par performance. Disappointing performance of the rail intermodal unit due to low pricing induced by the coronavirus pandemic is also concerning. Moreover, Landstar has an unimpressive earnings surprise history, having missed the Zacks Consensus Estimate in all of the trailing four quarters. However, the company's efforts to control costs bode well. The company's efforts to add shareholder value is also encouraging. We are also impressed by Landstar's efforts to control costs in order to offset the softness in revenues due to slowdown in freight demand.
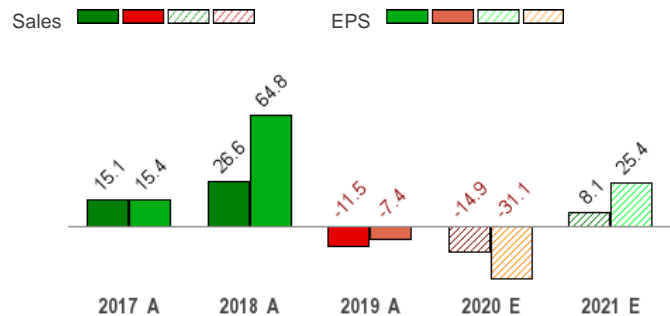
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$119.93 - $85.30**
20 Day Average Volume (sh)	**332,932**
Market Cap	**$4.3 B**
YTD Price Change	**-2.3%**
Beta	**1.00**
Dividend / Div Yld	**$0.74 / 0.7%**
Industry	**Transportation - Truck**
Zacks Industry Rank	**Bottom 27% (184 out of 252)**
Last EPS Surprise	**-7.1%**
Last Sales Surprise	**-1.0%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**07/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.4**
P/E F1	**28.2**
PEG F1	**2.4**
P/S TTM	**1.1**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	968 E	991 E	995 E	966 E	3,761 E
2020	928 A	772 E	843 E	929 E	3,478 E
2019	1,033 A	1,045 A	1,012 A	995 A	4,085 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.29 E	$1.24 E	$1.33 E	$1.32 E	$4.94 E
2020	$1.04 A	$0.72 E	$0.98 E	$1.22 E	$3.94 E
2019	$1.58 A	$1.53 A	$1.35 A	$1.27 A	$5.72 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 07/01/2020. The reports text is as of 07/02/2020.

Overview

Landstar System, Inc. is an asset-light provider of integrated transportation management solutions, incorporated in 1991. Based in Jacksonville, FL, the company provides services throughout the United States, Canada, Mexico as well as other countries in North America.

The company delivers safe, specialized transportation services to a broad range of customers utilizing a network of over 1,200 independent commission sales agents as well as over 66,000 third-party capacity owners. The company's business model is such that large part of its operating costs is directly proportional to revenues.

The company's independent commission sales agents work towards locating freight, making the same available to Landstar's capacity providers and coordinating the freight transportation between customers and capacity providers. Meanwhile, the third-party capacity providers supply truck capacity to the company.

Landstar operates primarily through two segments: the transportation logistics segment and the insurance segment.

**Transportation Logistics Segment**

Landstar System provides integrated transportation management solutions such as truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized etc. The segment offers services across a wide array of industries including automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics and military equipment.

The division also provides services to other third-party logistics and less-than-truckload service providers in the transportation sector. This segment is further divided into three sub-groups, namely Truck Services, Rail Intermodal Services and Air and Ocean Services.

In 2019, the company recorded revenues of $4.08 billion, down roughly 11.5% year over year. The Truck Transportation, Rail Intermodal and Ocean and Air Cargo Carriers units contributed 92.2%, 2.9% and 2.9%, respectively, to the top line.

The balance came from other sources like reinsurance premium revenue generated by the insurance segment and intra-Mexico transportation services revenue generated by Landstar Metro.

The company's fiscal year coincides with the calendar year.
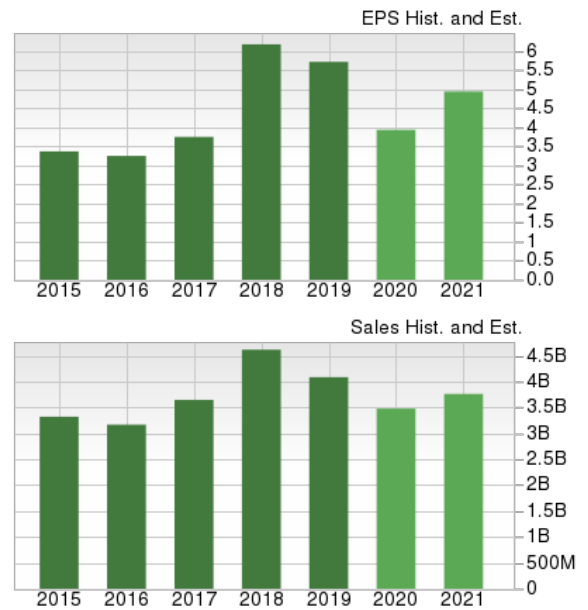
Reasons To Buy:

▲ Landstar's efforts to reward its shareholders through dividends and share buybacks deserve praise. In a shareholder-friendly move, the company declared its quarterly dividend of 18.5 cents per share (74 cents annually) payable on May 29 to shareholders of record as on May 7. The company paid out dividends worth $86.3 million. Free cash flow generation has exhibited an increasing trend since 2015. Impressive free cash flow generation is a major positive and might lead to an uptick in shareholder-friendly activities.

▲ We are impressed by Landstar's efforts to control costs in order to offset the softness in revenues due to slowdown in freight demand. Evidently, total expenses in first-quarter 2020 declined to $874.7 million from $953.2 billion incurred in the prior-year quarter. With revenues anticipated to be weak in the near term, we expect the company's cost-containment initiatives to drive the bottom line going forward.

▲ Landstar's asset-light business model sets it apart from other players in the industry. In an industry that is mostly capital intensive in nature with heavy fixed costs, Landstar operates with low fixed costs as it utilizes a network of independent sales agents and third-party truck capacity providers to offer services. Thus it is spared of the lump sum fixed costs of owning the heavy trucking equipment. This in turn, helps it generate higher return on investments. Moreover, Landstar's cash and cash equivalents at the end of the first quarter stood at $211 million, way above the current debt figure of $76 million, implying that the company has sufficient cash to meet its current debt obligations.

Landstar's efforts to reward shareholders via dividends and share repurchases are impressive.

Reasons To Sell:

▼ The truck transportation segment is Landstar's primary revenue generating unit. However, the segment has been performing disastrously for quite time due to lower truck volumes and unfavorable pricing. Landstar's top line declined roughly 10.2% in first quarter 2020, mainly due to the lackluster performance of the truck transportation segment.

▼ Apart from truck transportation, the rail intermodal segment is delivering a dismal performance. As a result, revenues in the rail intermodal segment deteriorated 6.3% in first quarter 2020. In the event of this key segment continuing to report below-par revenues, shares of the company might be hit significantly.

▼ The entire trucking industry is plagued by driver crisis, which is hampering business operations. Since Landstar generates majority of its revenues from trucking, this is a huge challenge for the company. Also, Landstar has an unimpressive earnings surprise history, having missed the Zacks Consensus Estimate in all of the trailing four quarters. The average miss is 6%.

Unfavorable pricing & low truck volumes are major headwinds for Landstar.

Last Earnings Report

Earnings Miss at Landstar in Q1

Landstar System's first-quarter 2020 earnings of $1.04 per share missed the Zacks Consensus Estimate by 8 cents. Moreover, the bottom line declined 34.2% on a year-over-year basis. Revenues amounted to $927.6 million, which missed the Zacks Consensus Estimate of $936.7 million. The top line dropped 10.2% on a year-over-year basis. Notably, lower truck volumes amid coronavirus pandemic, dented truck revenues and impacted quarterly results.

Quarter Ending	03/2020
Report Date	Apr 22, 2020
Sales Surprise	-0.98%
EPS Surprise	-7.14%
Quarterly EPS	1.04
Annual EPS (TTM)	5.19

Detailed Statistics

Gross profit (revenues excluding the cost of purchased transportation and commissions to agents) came in at $142.9 million in the reported quarter, down 8.2% year over year.

Further, operating income declined 33.2% from the prior-year quarter's figure to $54 million. Total costs and expenses (on a reported basis) declined to $874.7 million from the $953.2 billion incurred in the prior-year quarter.

Total revenues in the truck transportation segment — contributing 92% to the top line — amounted to $854.6 million, down 10.3% from the year-ago quarter's figure. Within the truck transportation segment, truckload transportation revenues hauled via van equipment in the reported quarter fell 12% to $545.3 million. Also, truckload transportation revenues hauled via unsided/platform equipment declined 7.9% to $286.3 million.

Less-than-truckload revenues dropped 2% to $22.94 million. The overall first-quarter truck revenue per load dropped 5.6% year over year to $474.3 million. Intermodal revenues of $28.13 million fell 8.3% from the figure recorded in the first quarter of 2019. Revenues in the ocean and air cargo carriers segment fell 13.3% from the year-ago quarter to $26.6 million. Moreover, other revenues declined to $18.3 million.

Liquidity

Landstar's cash and cash equivalents were $177.22 million compared with the $319.51 million recorded at the end of 2019. Additionally, long-term debt (excluding current maturities) totaled $61.97 million compared with $70.21 million at the end of 2019.

The company's Board of Directors declared a quarterly dividend of 18.5 cents (annualized 74 cents) per share payable on May 29, 2020 to shareholders as on May 7. In first-quarter 2020, Landstar rewarded its shareholders with $86.3 million through dividend payouts.

Valuation

Landstar shares are down 2.3% but up 2.5% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 11.7% in the year-to-date period, while those in the Zacks Transportation sector are down 13%. Over the past year, the Zacks sub-industry is up 33.7% while the sector is down 9.9%.

The S&P 500 index is down 3.2% in the year-to-date period but up 4.7% and in the past year.

The stock is currently trading at 21.43X trailing 12-month price-to-earnings, which compares to 23.84X for the Zacks sub-industry, 16.11X for the Zacks sector and 20.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.79X and as low as 15.04X, with a 5-year median of 20.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $118 price target reflects 22.73X trailing 12-month earnings.

The table below shows summary valuation data for LSTR

Valuation Multiples - LSTR		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	21.43	23.84	16.11	20.09
	5-Year High	30.79	32.8	19.57	22.25
	5-Year Low	15.04	13.97	11.63	15.98
	5-Year Median	20.61	19.61	15.56	19.13
EV/EBITDA TTM	Current	13.13	10.79	7.29	11.57
	5-Year High	17.66	21.85	11.16	12.86
	5-Year Low	8.53	5.73	5.44	8.25
	5-Year Median	11.85	8.46	7.32	10.86
P/S F 12M	Current	1.18	1.79	1.23	3.47
	5-Year High	1.24	1.84	1.42	3.47
	5-Year Low	0.68	0.82	0.85	2.53
	5-Year Median	0.99	1.25	1.2	3.02

As of 07/01/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
ArcBest Corporation (ARCB)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	2
KnightSwift Transportation Holdings Inc. (KNX)	Neutral	4
Marten Transport, Ltd. (MRTN)	Neutral	3
Old Dominion Freight Line, Inc. (ODFL)	Neutral	3
Schneider National, Inc. (SNDR)	Neutral	3
Universal Logistics Holdings, Inc. (ULH)	Neutral	3
Forward Air Corporation (FWRD)	Underperform	5

Industry Comparison Industry: Transportation - Truck | Industry Peers

	LSTR	X Industry	S&P 500	FWRD	ODFL	ULH
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	A	-	-	B	C	A
Market Cap	4.27 B	995.82 M	21.87 B	1.36 B	19.86 B	464.62 M
# of Analysts	10	5	14	5	9	1
Dividend Yield	0.67%	0.36%	1.94%	1.48%	0.36%	2.43%
Value Score	B	-	-	C	D	A
Cash/Price	0.05	0.04	0.07	0.06	0.02	0.03
EV/EBITDA	12.00	6.56	12.69	9.54	18.09	6.56
PEG Ratio	2.36	2.73	2.86	NA	3.89	NA
Price/Book (P/B)	6.81	2.23	2.98	2.41	6.59	2.25
Price/Cash Flow (P/CF)	16.14	7.68	11.63	10.61	23.19	3.49
P/E (F1)	28.34	27.43	21.27	35.42	36.90	13.48
Price/Sales (P/S)	1.07	0.95	2.27	0.95	4.84	0.31
Earnings Yield	3.54%	3.59%	4.48%	2.82%	2.71%	7.42%
Debt/Equity	0.10	0.26	0.76	0.44	0.00	2.32
Cash Flow ($/share)	6.89	4.97	6.94	4.59	7.26	4.95
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	18.06%	14.07%	10.93%	10.76%	24.47%	16.40%
Proj. EPS Growth (F1/F0)	-31.19%	-31.21%	-9.61%	-54.80%	-10.66%	-4.48%
Curr. Cash Flow Growth	-8.92%	-0.06%	5.51%	-3.74%	3.97%	17.75%
Hist. Cash Flow Growth (3-5 yrs)	10.35%	8.82%	8.62%	6.96%	15.99%	11.30%
Current Ratio	1.76	1.54	1.30	1.68	1.94	1.13
Debt/Capital	8.99%	25.58%	44.46%	30.75%	0.00%	69.91%
Net Margin	5.16%	5.16%	10.62%	5.38%	14.99%	2.14%
Return on Equity	28.99%	12.31%	15.75%	14.38%	20.85%	25.77%
Sales/Assets	2.95	1.44	0.55	1.44	1.05	1.57
Proj. Sales Growth (F1/F0)	-14.86%	-2.90%	-2.57%	-13.07%	-6.79%	5.16%
Momentum Score	C	-	-	A	C	C
Daily Price Chg	-0.96%	-1.30%	-0.32%	-2.33%	-0.73%	-0.69%
1 Week Price Chg	-2.93%	-2.06%	-3.90%	-3.71%	-3.10%	2.18%
4 Week Price Chg	-3.62%	1.29%	-4.56%	-4.19%	1.12%	3.35%
12 Week Price Chg	11.02%	20.32%	9.62%	-4.64%	21.74%	36.66%
52 Week Price Chg	2.54%	-5.63%	-7.80%	-18.08%	68.89%	-22.74%
20 Day Average Volume	332,932	277,500	2,688,665	151,720	856,267	47,175
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.24%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.88%	-0.10%	0.00%
(F1) EPS Est 12 week change	-26.00%	-26.00%	-9.63%	-58.94%	-16.38%	-47.97%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.99%	-1.32%	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	B
Growth Score	B
Momentum Score	C
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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