

Old Dominion Freight (ODFL)

\$200.61 (As of 01/13/20)

Price Target (6-12 Months): **\$213.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

We are impressed by Old Dominion's efforts to reward its shareholders. Evidently, during the first nine months of 2019, the company rewarded shareholders with \$246.4 million through \$41 million in dividends and \$205.3 million in buybacks. Old Dominion's debt-control efforts are also commendable. Inclusion of Old Dominion in the coveted S&P 500 index in December is an added positive. Backed by these tailwinds, shares of Old Dominion outperformed its industry in a year's time. However, the soft freight environment is affecting the company's top line due to decline in LTL tonnage. Akin to the past few quarters, LTL tonnage is expected to have declined in fourth-quarter 2019 as well. Detailed Results are scheduled to be out on Feb 6. Deterioration in operating ratio is also worrisome. Its high capex further add to the woes.

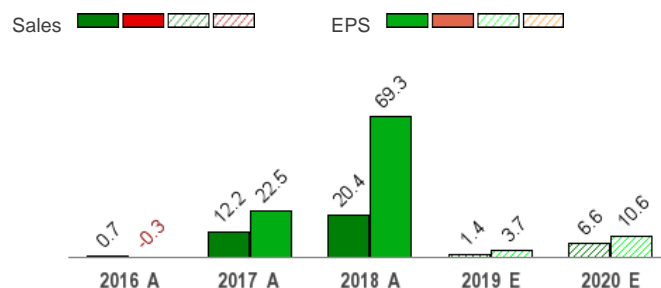
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$205.10 - \$124.08
20 Day Average Volume (sh)	448,724
Market Cap	\$16.0 B
YTD Price Change	5.7%
Beta	1.49
Dividend / Div Yld	\$0.68 / 0.3%
Industry	Transportation - Truck
Zacks Industry Rank	Bottom 6% (239 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.8%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	02/06/2020
Earnings ESP	-2.4%
P/E TTM	25.7
P/E F1	23.7
PEG F1	3.2
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,018 E	1,113 E	1,118 E	1,075 E	4,373 E
2019	991 A	1,061 A	1,048 A	1,003 E	4,102 E
2018	925 A	1,034 A	1,058 A	1,027 A	4,044 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.71 E	\$2.34 E	\$2.34 E	\$2.13 E	\$8.46 E
2019	\$1.64 A	\$2.16 A	\$2.05 A	\$1.80 E	\$7.65 E
2018	\$1.33 A	\$1.99 A	\$2.12 A	\$1.95 A	\$7.38 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Old Dominion Freight Line, founded in 1934, is a leading LTL (Less-Than-Truckload) company. The company based in Thomasville, NC, offers LTL services on a regional, inter-regional and national basis. The services are inclusive of ground and air expedited transportation, apart from consumer household pickup and delivery through a single integrated organization.

The company also offers LTL services across North America through strategic alliances. Additionally, it provides value-added services like container drayage, truckload brokerage, supply chain consulting and warehousing. The company operates multiple service and maintenance centers.

While bulk of the centers is owned by the company, the remaining are leased. The service centers are endowed with responsibility pertaining to the pickup and delivery of freight locally. Moreover, the maintenance centers are responsible for performing operations that are related to the routine and preventive maintenance as well as repairs of the company's equipment.

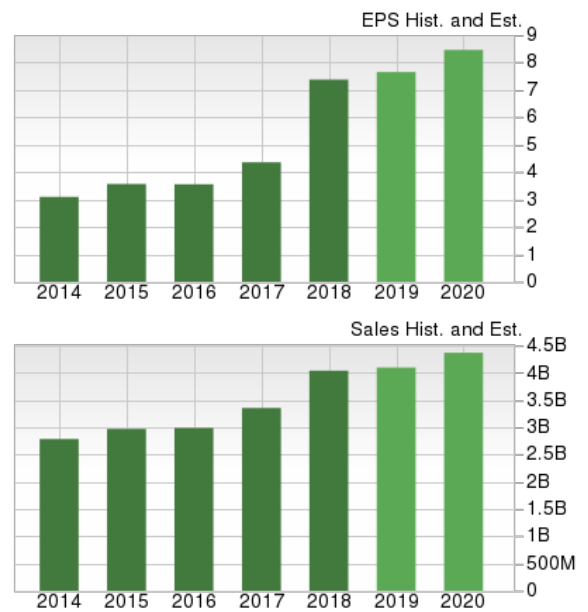
Old Dominion's infrastructure allows for smoother freight transportation offering next-day and second-day service through each of its regions across the United States. Over the past several years, the company has opened numerous service centers which have increased capacity across its service network. This in turn places the company for future growth prospects.

The company constantly works towards improving customer service by increasing on-time performance and reducing cargo claims. It primarily focuses on increasing shipments and tonnage growth in order to generate higher revenues.

The company faces primary competition from regional, inter-regional and national LTL carriers. It also faces secondary competition from truckload carriers, small package carriers, airfreight carriers and railroads.

In 2018, total revenues increased 20.4% year over year to \$4.04 billion. LTL service revenues were up 20.6% and accounted for bulk of the top line (98.5%). LTL service revenues were aided by growth in LTL tons and yield. LTL tons rose 10.1% year over year on the back of improvement in LTL shipments (9.4%) and LTL weight per shipment (0.6%). Remainder of the top line (1.5%) was generated from non-LTL revenues.

Notably, the company's fiscal year coincides with the calendar year.



Reasons To Buy:

▲ Old Dominion's efforts to reward shareholders through dividends and share buybacks are impressive. In February 2019, the company's board of directors approved a 30.8% hike in its quarterly cash dividend to 17 cents per share (68 cents annually). This May, the company's board cleared a new stock repurchase program authorizing it to buy back stocks worth up to \$350 million. During the first nine months of 2019, the company rewarded its shareholders with \$246.4 million through \$41 million in dividends and \$205.3 million in buybacks.

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▲ Old Dominion's efforts to reduce its debt levels are quite encouraging. The company's total debt was around \$250 million in 2008. This has been lowered to \$45 million at the end of the first nine months of 2019. Old Dominion's debt-equity ratio (as a percentage) stands at 1.5, much lower than its industry's 20.2. This favorable comparison indicates that Old Dominion is not a very leveraged company.

▲ The company has an impressive earnings history with beats in three of the last four quarters, the average positive surprise being 3.8%. The inclusion of Old Dominion in the coveted S&P 500 index from Dec 9, 2019, is an added positive. Owing to the abovementioned tailwinds, shares of the company have substantially outperformed its industry in a year's time.

Reasons To Sell:

- ▼ The sluggish freight environment is a major concern for Old Dominion. As an evidence, LTL tonnage declined successively in each of the three quarters of 2019, registering a 4.4% decrease in the first nine months of 2019. The adversity is due to lower volumes on account of soft freight demand. LTL shipments also slipped 1.6% in the period. What is more alarming is that slowdown in LTL demand is likely to persist in the near future. The company expects tonnage weakness to hurt its results in the remainder of 2019 as well.
- ▼ Deterioration in the operating ratio (operating expenses as a percentage of revenues) during the third quarter is quite bothersome. This key metric, which measures operational efficiency, deteriorated to 79.3% in the third quarter from 78.4% in the year-ago period. Lower the value of the metric, the better. If the sub-par performance persists, the stock might be affected significantly. Further highlighting this bumpy ride for the company is its top and bottom-line decline in the third quarter. Revenues are said to have decreased for the first time since the second quarter of 2016.
- ▼ Capital expenditures are on the rise at Old Dominion as it continues to invest for real estate and service center expansion. Though positive on such efforts, increased capital expenditures are contributing to rise in costs. Though capital expenditures for 2019 (\$480 million) are projected to be lower than the 2018-levels (\$588.3 million), it is a significant increase from the 2017-levels.

The sluggish freight environment is a major worry for Old Dominion. Decline in the operating ratio is also concerning.

Last Earnings Report

Earnings Miss at Old Dominion in Q3

Old Dominion delivered third-quarter 2019 earnings of \$2.05 per share, which missed the Zacks Consensus Estimate of \$2.11. Moreover, the bottom line fell 3.3% year over year. Quarterly revenues of \$1,048.5 million fell short of the consensus mark of \$1,059.2 million and inched down nearly 1% year over year. Results were affected by 5.2% decline in LTL (Less-Than-Truckload) tonnage due to soft freight environment. The major revenue generating segment — LTL services — logged a total of \$1.04 billion, marginally down year over year.

In the quarter under review, LTL revenue per hundredweight was up 5.8%, excluding fuel surcharges. However, LTL shipments declined 4.5%. Also, LTL weight per shipment fell marginally. Additionally, operating ratio (operating expenses as a percentage of revenues) deteriorated to 79.3% from 78.4% in the year-ago quarter.

Old Dominion exited the third quarter with cash and cash equivalents of \$322.29 million compared with \$190.28 million at the end of 2018.

Capital expenditures at the end of the first nine months of 2019 totaled \$370.3 million. The company continues to expect capital expenditures of \$480 million in 2019. Of the total amount, \$220 million is anticipated to be invested in real estate and service-center expansion. Approximately \$165 million and \$95 million are estimated to be spent in tractors and trailers and technology and other assets, respectively.

During the first nine months of 2019, Old Dominion rewarded its shareholders with \$246.4 million through \$41 million in dividend payouts and \$205.3 million in buybacks.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.02%
EPS Surprise	-2.84%
Quarterly EPS	2.05
Annual EPS (TTM)	7.80

Recent News

Old Dominion to Join S&P500 Index — Dec 02, 2019

Old Dominion is set to join the coveted S&P 500, before market open on Dec 9. Notably, the company will replace SunTrust Banks , which is expected to be acquired by another S&P 500 member — BB&T Corporation . In the S&P SmallCap 600 Index, Old Dominion's spot will be filled by Cabot Microelectronics Corporation.

LTL Segment Update for November — Dec 03, 2019

With the 5.3% decrease in LTL tons per day, revenue per day declined 3.2% year over year. The adversity was partly offset by increase in LTL revenue per hundredweight. The fall in LTL tons per day was due to a 5.7% decrease in LTL shipments per day. Meanwhile, weight per shipment inched up 0.4%. So far in the fourth quarter, LTL revenue per hundredweight augmented 2.6% year over year, while the same excluding fuel surcharges climbed 4.1%.

Valuation

Old Dominion shares are up 59.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 25.1% and 13% in a year's time, respectively. Over the past year, the S&P 500 index is up 25%.

The stock is currently trading at 23.59X forward 12-month price-to-earnings, which compares to 19.61X for the Zacks sub-industry, 13.09X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.34X and as low as 12.85X, with a 5-year median of 19.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$213 price target reflects 25.04X forward 12-month earnings.

The table below shows summary valuation data for ODFL

Valuation Multiples - ODFL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.59	19.61	13.09	19
	5-Year High	31.34	25.09	16.98	19.34
	5-Year Low	12.85	13.24	10.46	15.17
	5-Year Median	19.72	17.88	13.1	17.44
EV/EBITDA TTM	Current	14.03	9.25	7.9	12.12
	5-Year High	18.29	23.44	11.1	12.86
	5-Year Low	6.81	5.75	5.98	8.48
	5-Year Median	11.11	8.44	7.42	10.67
P/S F12M	Current	3.66	1.5	1.14	3.52
	5-Year High	3.73	1.57	1.44	3.52
	5-Year Low	1.35	0.79	1.03	2.54
	5-Year Median	2.34	1.18	1.23	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 out of 254)



Top Peers

ArcBest Corporation (ARCB)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Landstar System, Inc. (LSTR)	Neutral
Saia, Inc. (SAIA)	Neutral
United Parcel Service, Inc. (UPS)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
YRC Worldwide, Inc. (YRCW)	Neutral
FedEx Corporation (FDX)	Underperform

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	ODFL Neutral	X Industry	S&P 500	JBHT Neutral	SAIA Neutral	YRCW Neutral
VGM Score	C	-	-	B	B	A
Market Cap	16.01 B	933.00 M	24.31 B	12.63 B	2.44 B	86.64 M
# of Analysts	9	4.5	13	7	8	1
Dividend Yield	0.34%	0.34%	1.76%	0.88%	0.00%	0.00%
Value Score	D	-	-	C	B	A
Cash/Price	0.02	0.03	0.04	0.01	0.00	1.47
EV/EBITDA	15.04	6.28	14.12	12.40	10.62	3.84
PEG Ratio	3.23	1.58	2.05	1.34	NA	NA
Price/Book (P/B)	5.52	2.40	3.34	5.76	3.08	NA
Price/Cash Flow (P/CF)	19.62	7.08	13.66	12.13	11.66	0.50
P/E (F1)	23.99	18.01	18.82	20.04	18.15	NA
Price/Sales (P/S)	3.88	1.04	2.64	1.40	1.39	0.02
Earnings Yield	4.22%	5.48%	5.29%	4.99%	5.51%	-16.74%
Debt/Equity	0.02	0.26	0.72	0.59	0.18	-2.96
Cash Flow (\$/share)	10.23	4.98	6.94	9.77	8.06	4.82
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	22.90%	11.09%	10.56%	12.15%	18.09%	-38.92%
Proj. EPS Growth (F1/F0)	10.60%	9.97%	7.49%	9.34%	18.78%	87.68%
Curr. Cash Flow Growth	48.06%	43.50%	14.83%	33.00%	43.50%	6.94%
Hist. Cash Flow Growth (3-5 yrs)	20.20%	11.52%	9.00%	12.27%	17.07%	9.10%
Current Ratio	2.03	1.31	1.23	1.29	1.02	0.97
Debt/Capital	1.52%	22.67%	42.99%	37.09%	15.56%	NA
Net Margin	15.29%	5.46%	11.08%	5.46%	6.72%	-1.35%
Return on Equity	22.62%	13.93%	17.16%	28.45%	15.89%	NA
Sales/Assets	1.11	1.52	0.55	1.70	1.36	2.69
Proj. Sales Growth (F1/F0)	6.60%	2.13%	4.23%	6.82%	6.90%	-2.85%
Momentum Score	F	-	-	F	F	B
Daily Price Chg	1.85%	0.49%	0.73%	-0.49%	1.17%	4.82%
1 Week Price Chg	3.81%	0.08%	0.39%	1.75%	-0.02%	-11.28%
4 Week Price Chg	7.85%	-0.05%	1.84%	3.50%	2.23%	-4.78%
12 Week Price Chg	11.52%	-4.08%	6.48%	2.70%	-5.58%	-47.12%
52 Week Price Chg	59.31%	9.89%	23.15%	20.91%	70.23%	-57.70%
20 Day Average Volume	448,724	185,180	1,578,594	708,404	245,916	1,072,114
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	0.00%	-0.34%	-60.81%
(F1) EPS Est 4 week change	-0.52%	-0.42%	0.00%	-1.33%	-0.32%	0.21%
(F1) EPS Est 12 week change	-0.78%	-5.74%	-0.48%	-3.27%	-2.10%	-78.28%
(Q1) EPS Est Mthly Chg	-0.73%	0.00%	0.00%	-0.76%	-1.08%	4.35%

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	D
Growth Score	A
Momentum Score	F
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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