

Old Dominion Freight (ODFL)

\$177.73 (As of 07/14/20)

Price Target (6-12 Months): **\$188.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Old Dominion's efforts to add shareholder value is impressive. During 2019, the company rewarded shareholders to the tune of \$295.5 million. In first-quarter 2020, it bought back shares worth \$178.3 million and paid dividends of \$18.3 million. Its debt-control efforts are also appreciative. Inclusion of Old Dominion in the coveted S&P 500 index is an added positive. Backed by these tailwinds, shares of Old Dominion outperformed its industry in a year's time. However, soft freight environment is hurting the company's top line due to decline in LTL tonnage. Moreover, demand for the company's services started dwindling from the latter half of March due to coronavirus concerns. Although the impact was limited in the first quarter, the effect is likely to magnify in the second quarter as supply chain disruptions aggravate.

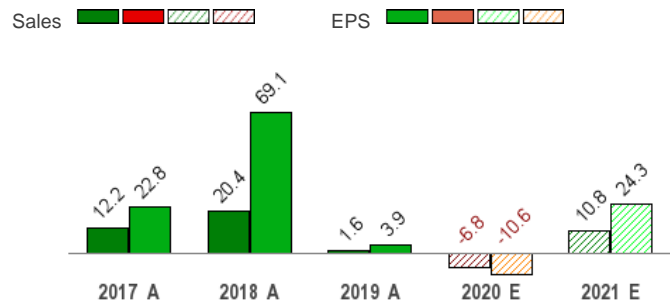
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$227.21 - \$119.01
20 Day Average Volume (sh)	762,762
Market Cap	\$21.0 B
YTD Price Change	40.5%
Beta	1.07
Dividend / Div Yld	\$0.60 / 0.3%
Industry	Transportation - Truck
Zacks Industry Rank	Top 39% (97 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/30/2020
Earnings ESP	-3.9%
P/E TTM	25.0
P/E F1	38.9
PEG F1	5.2
P/S TTM	5.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,011 E	1,076 E	1,078 E	1,067 E	4,243 E
2020	987 A	887 E	940 E	975 E	3,831 E
2019	991 A	1,061 A	1,048 A	1,009 A	4,109 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.23 E	\$1.44 E	\$1.44 E	\$1.35 E	\$5.68 E
2020	\$1.11 A	\$1.03 E	\$1.20 E	\$1.23 E	\$4.57 E
2019	\$1.09 A	\$1.44 A	\$1.37 A	\$1.20 A	\$5.11 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 07/14/2020. The reports text is as of 07/15/2020.

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.

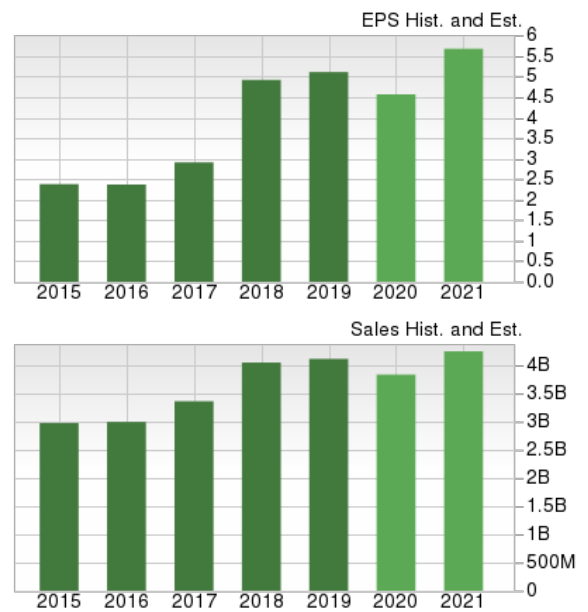
The company constantly works towards improving customer service by increasing on-time performance and reducing cargo claims. It primarily focuses on increasing shipments and tonnage growth in order to generate higher revenues.

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 2019, total revenues increased 1.6% year over year to \$4.1 billion. LTL service revenues were up 1.6% and accounted for bulk of the top line (98.7%). Remainder of the top line (1.5%) was generated from non-LTL revenues.

Notably, LTL tons declined 4.4% year over year as LTL shipments fell 2.2% from 2018 levels. However, LTL weight per shipment, excluding fuel surcharges, increased 7.3% in 2019.

Moreover, 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. During 2019, the company rewarded shareholders to the tune of \$295.5 million. In first-quarter 2020, it bought back shares worth \$178.3 million and paid dividends of \$18.3 million. In May, the company's board approved a quarterly cash dividend of 15 cents per share. The dividend reflects a three-for-two stock split, approved by the board on Feb 21. This means that one additional share was issued for every two shares of common stock. The additional shares were distributed on Mar 24 at an adjusted price of \$150.48.
 - ▲ 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 first-quarter 2020. Old Dominion's total debt to total capital ratio at the end of first-quarter 2020 and fourth-quarter 2019 were 0.02 and 0.01, respectively. The readings compare favorably with the respective numbers of 0.14 and 0.15 for its industry. Additionally, the company's cash and cash equivalents at the end of the first quarter stood at \$357 million, way above the current debt of \$45 million, implying that the company has sufficient cash to meet its current debt obligations.
 - ▲ Improvement in operating ratio (operating expenses as a percentage of revenues) in the first quarter of 2020 is encouraging. The metric improved to 81.4% in the first quarter from 82% in the year-ago quarter due to lower operating expenses. Notably, lower the value of this metric the better. The inclusion of Old Dominion in the coveted S&P 500 index from Dec 9, 2019, is an added positive. Operating ratio is also expected to have improved during the second quarter 2020.
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Reasons To Sell:

- ▼ The sluggish freight environment is a major concern for Old Dominion. As an evidence, LTL tonnage declined 4.4% in 2019 from 2018 levels. The adversity is due to lower volumes on account of soft freight demand. LTL shipments slipped 2.2% in 2019. In first-quarter 2020, LTL tonnage declined 2.4%. If the sub-par performance persists, the stock might be affected significantly.
- ▼ Demand for the company's services dwindled in the latter half of March as the coronavirus pandemic crippled the domestic economy. Consequently, effect of coronavirus on first-quarter results was limited. Despite that, the company reduced its estimated expenditures for real estate during the March quarter by approximately \$50 million. due to some projects being deferred on account of sluggish shipments. The impact is likely to have magnified in second-quarter 2020 due to supply chain disruptions. Detailed results will be available on Jul 30. This will dent the company's growth prospects.
- ▼ We are concerned about the lower-than-expected revenues reported by the company in first-quarter 2020. The top line also decreased on a year-over-year basis. The company's major revenue generating segment, LTL services, logged a total of \$974.4 million, declining year over year. Revenues from other services fell 9% to \$12.9 million. In the event of below-par top line performances in the coming quarters too, the stock might be hurt badly.

Reduced demand for the company's services due to the coronavirus pandemic is a major setback.

Last Earnings Report

Revenue Miss at Old Dominion in Q1

Old Dominion Freight Line's earnings per share of \$1.11 matched the Zacks Consensus Estimate. Meanwhile, the bottom line inched up 1.8% year over year, mainly owing to lower operating expenses.

Revenues came in at \$987.4 million, falling short of the Zacks Consensus Estimate of \$989.8 million. The top line also dipped marginally on a year-over-year basis, mainly due to a 3.9% decrease in LTL (Less-Than-Truckload) tons per day as a result of a soft freight environment. Moreover, demand for the company's services dwindled in the latter half of March as the coronavirus pandemic crippled the domestic economy.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	-0.25%
EPS Surprise	0.00%
Quarterly EPS	1.11
Annual EPS (TTM)	5.12

Other Details

In the quarter under review, Old Dominion reported a 2.4% contraction in LTL tonnage. However, LTL revenue per hundredweight was up 2.6% in the first quarter of 2020. The metric increased 3.3% excluding fuel surcharges. Also, LTL weight per shipment rose 1.3%. However, LTL shipments were down 3.6%.

The company's major revenue generating segment, LTL services, logged a total of \$974.4 million, slipping 0.2% year over year. Revenues from other services fell 9% to \$12.9 million. Total operating expenses decreased in excess of 1% to \$804.2 million despite a rise in costs on salaries, wages & benefits.

Despite the revenue deterioration, operating ratio (operating expenses as a percentage of revenues) improved to 81.4% in the first quarter of 2020 from 82% in the year-ago quarter. Notably, lower the value of this metric the better.

Old Dominion exited the quarter with cash and cash equivalents worth \$357 million compared with \$403.57 million at the end of 2019. Capital expenditures incurred in the reported quarter were \$52.2 million. Due to some projects being deferred on account of sluggish shipments, the company reduced its estimated expenditures for real estate during the March quarter by approximately \$50 million.

As a result, Old Dominion now expects capital expenditures of \$265 million for 2020 (\$315 million expected earlier). Of the total, \$195 million is anticipated to be invested in real estate and service-center expansion. The company expects to spend \$20 million and \$50 million on tractors/trailers, and technology and other assets, respectively.

During the first quarter, Old Dominion rewarded its shareholders with \$196.6 million through buybacks (\$178.3 million) and dividends (\$18.3 million).

Recent News

LTL Segment Performance Update —Jun 3, 2020

Revenue per day declined 16.2% in May from the prior year due to decrease in LTL tons per day and LTL revenue per hundredweight. The decrease in LTL tons per day was due to 16.7% decrease in LTL shipments per day. LTL revenue per hundredweight and LTL revenue per hundredweight excluding fuel surcharges decreased 4.7% and 1.4% as of Jun 3, respectively, from the year-ago levels.

Valuation

Old Dominion shares are up 40.5% and 73.8% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 15.7% in the year-to-date period, while those in the Zacks Transportation sector are down 12.7%. Over the past year, the Zacks sub-industry is up 32.8% while the sector is down 11.8%.

The S&P 500 index is down 1.7% in the year-to-date period but up 5.8% and in the past year.

The stock is currently trading at 34.41X forward 12-month price-to-earnings, which compares to 25.87X for the Zacks sub-industry, 32.53X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.41X and as low as 12.85X, with a 5-year median of 20.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$188 price target reflects 36.43X 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 F 12M	Current	34.41	25.87	32.53	22.45
	5-Year High	34.41	26.44	35.19	22.45
	5-Year Low	12.85	13.23	10.48	15.25
	5-Year Median	20.48	18.05	13.35	17.52
EV/EBITDA TTM	Current	19.13	11.15	7.39	11.72
	5-Year High	19.13	21.85	11.21	12.86
	5-Year Low	6.63	5.73	5.45	8.25
	5-Year Median	11.35	8.49	7.38	10.87
P/S F 12M	Current	5.17	1.85	1.23	3.51
	5-Year High	5.17	1.85	1.42	3.51
	5-Year Low	1.35	0.82	0.85	2.53
	5-Year Median	2.55	1.26	1.2	3.02

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 39% (97 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
ArcBest Corporation (ARCB)	Neutral	3
FedEx Corporation (FDX)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Landstar System, Inc. (LSTR)	Neutral	3
Saia, Inc. (SAIA)	Neutral	3
United Parcel Service, Inc. (UPS)	Neutral	3
XPO Logistics, Inc. (XPO)	Neutral	3
YRC Worldwide, Inc. (YRCW)	Neutral	3

Industry Comparison Industry: Transportation - Truck				Industry Peers		
	ODFL	X Industry	S&P 500	JBHT	SAIA	YRCW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	B	C
Market Cap	20.96 B	1.05 B	21.89 B	13.57 B	3.25 B	114.25 M
# of Analysts	9	5	14	10	8	1
Dividend Yield	0.34%	0.34%	1.86%	0.84%	0.00%	0.00%
Value Score	D	-	-	B	C	C
Cash/Price	0.02	0.04	0.07	0.00	0.01	0.81
EV/EBITDA	19.11	6.59	12.84	12.01	12.53	3.31
PEG Ratio	5.22	2.91	2.92	2.03	NA	NA
Price/Book (P/B)	6.96	2.32	3.06	5.95	3.85	NA
Price/Cash Flow (P/CF)	24.48	7.97	11.89	13.31	13.98	0.46
P/E (F1)	38.80	29.98	21.54	30.45	31.42	NA
Price/Sales (P/S)	5.11	0.97	2.27	1.45	1.78	0.02
Earnings Yield	2.57%	3.29%	4.38%	3.29%	3.18%	-101.97%
Debt/Equity	0.00	0.26	0.76	0.57	0.26	-2.45
Cash Flow (\$/share)	7.26	4.97	6.94	9.67	8.91	6.61
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	24.47%	14.07%	10.85%	11.64%	22.31%	-38.92%
Proj. EPS Growth (F1/F0)	-10.55%	-30.36%	-9.64%	-13.58%	-6.32%	0.96%
Curr. Cash Flow Growth	3.97%	-0.06%	5.51%	-2.99%	11.52%	46.76%
Hist. Cash Flow Growth (3-5 yrs)	15.99%	8.82%	8.55%	9.02%	15.99%	13.96%
Current Ratio	1.94	1.54	1.30	1.54	1.23	0.98
Debt/Capital	0.00%	25.58%	44.46%	36.34%	20.40%	NA
Net Margin	14.99%	5.16%	10.54%	5.71%	6.56%	-1.05%
Return on Equity	20.85%	12.31%	15.75%	24.76%	14.68%	NA
Sales/Assets	1.05	1.44	0.54	1.73	1.26	2.58
Proj. Sales Growth (F1/F0)	-6.78%	-2.95%	-2.52%	-1.91%	-1.17%	0.00%
Momentum Score	B	-	-	F	F	F
Daily Price Chg	3.16%	1.81%	1.60%	2.42%	1.57%	1.00%
1 Week Price Chg	3.52%	4.28%	-0.41%	7.93%	11.01%	14.80%
4 Week Price Chg	9.53%	7.05%	-0.71%	10.28%	10.04%	66.12%
12 Week Price Chg	43.13%	23.90%	15.18%	28.84%	76.48%	92.40%
52 Week Price Chg	73.72%	3.47%	-6.45%	31.68%	88.22%	-15.79%
20 Day Average Volume	762,762	260,270	2,246,780	754,366	304,788	6,013,568
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.05%	0.00%	0.00%
(F1) EPS Est 4 week change	0.02%	0.05%	0.00%	-1.08%	0.09%	0.00%
(F1) EPS Est 12 week change	-12.03%	-25.23%	-6.22%	-9.82%	-13.22%	-63.16%
(Q1) EPS Est Mthly Chg	-0.99%	0.00%	0.00%	-4.34%	1.19%	NA

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	B
Momentum Score	B
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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