

## Old Dominion Freight (ODFL)

**\$132.76** (As of 04/15/20)

Price Target (6-12 Months): **\$141.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

### Summary

We are impressed by Old Dominion's efforts to reward its shareholders. Evidently, during 2019, the company rewarded its shareholders to the tune of \$295.5 million through dividend payments (\$54.6 million) and buybacks (\$241 million). Moreover, in February, it announced a 35.3% hike in quarterly dividend to 23 cents per share. Its debt-control efforts are also commendable. Inclusion of Old Dominion in the coveted S&P 500 index in December 2019 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 may decline in first-quarter 2020. Deterioration in operating ratio is also worrisome. Its high capex further add to the woes.

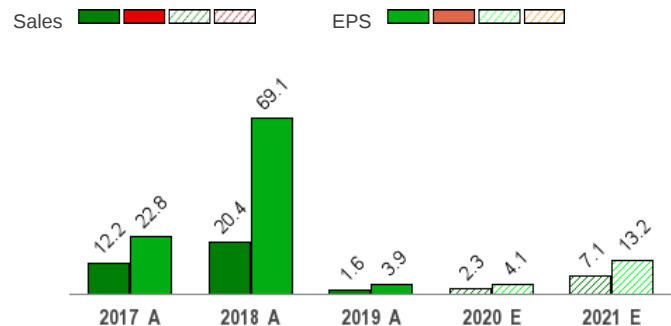
### Price, Consensus & Surprise



### Data Overview

|                            |                                        |
|----------------------------|----------------------------------------|
| 52 Week High-Low           | \$227.21 - \$119.01                    |
| 20 Day Average Volume (sh) | 1,070,747                              |
| Market Cap                 | \$15.9 B                               |
| YTD Price Change           | 4.9%                                   |
| Beta                       | 1.07                                   |
| Dividend / Div Yld         | \$0.61 / 0.5%                          |
| Industry                   | <a href="#">Transportation - Truck</a> |
| Zacks Industry Rank        | Bottom 15% (214 out of 253)            |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 1.1%       |
| Last Sales Surprise       | 0.7%       |
| EPS F1 Est- 4 week change | -5.1%      |
| Expected Report Date      | 04/23/2020 |
| Earnings ESP              | -0.6%      |
| P/E TTM                   | 17.4       |
| P/E F1                    | 25.0       |
| PEG F1                    | 3.4        |
| P/S TTM                   | 3.9        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,085 E | 1,152 E | 1,176 E | 1,144 E | 4,499 E |
| 2020 | 997 E   | 1,050 E | 1,085 E | 1,058 E | 4,202 E |
| 2019 | 991 A   | 1,061 A | 1,048 A | 1,009 A | 4,109 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.22 E | \$1.57 E | \$1.58 E | \$1.45 E | \$6.02 E |
| 2020 | \$1.12 E | \$1.27 E | \$1.46 E | \$1.32 E | \$5.32 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 04/15/2020. The reports text is as of 04/16/2020.

## 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.

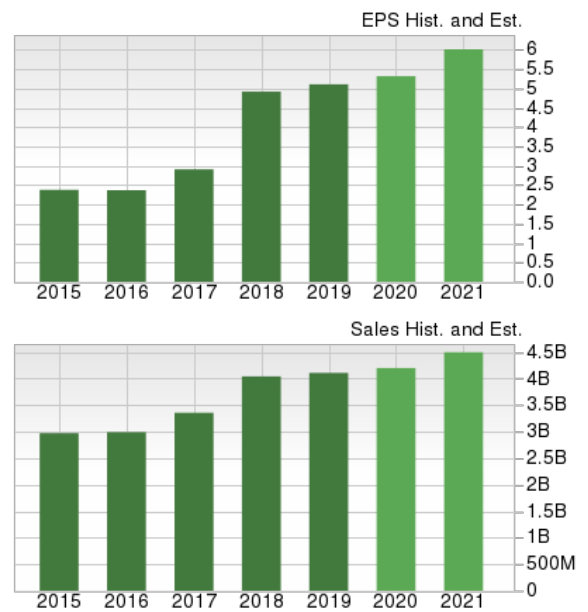
The company constantly works towards improving customer service by increasing on-time performance and reducing cargo claims. It primarily focuses on increasing shipments and tonnage growth in order to generate higher revenues.

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.



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## Reasons To Buy:

- ▲ Old Dominion's efforts to reward shareholders through dividends and share buybacks are impressive. In February 2020, the company's board of directors approved a 35.3% hike in quarterly dividend to 23 cents per share (annualized 92 cents). The first installment of the new dividend will be paid on March 18, to shareholders of record as of Mar 4, 2020.). Additionally, in May 2019, the company's board cleared a new stock repurchase program authorizing it to buy back stocks worth up to \$350 million. During 2019, the company rewarded its shareholders to the tune of \$295.5 million through dividend payments (\$54.6 million) and share buybacks (\$241 million).
- ▲ 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 2019. Old Dominion's debt-equity ratio (as a percentage) stands at 1.5, much lower than its industry's 14.3. 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 impressive earnings history is reflected in the stockprice movement. Notably, shares of Old Dominion outperformed its industry in a year's time. The inclusion of Old Dominion in the coveted S&P 500 index from Dec 9, 2019, is an added positive.

Old Dominion's efforts to reward shareholders through dividends and share buybacks are impressive.

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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. What is more alarming is that LTL tonnage is likely to decline in first-quarter 2020 ( results to be declared on Apr 23) as well.
- ▼ Deterioration in the operating ratio (operating expenses as a percentage of revenues) is quite bothersome. This key metric, which measures operational efficiency, deteriorated to 80.1% in 2019 from 79.8% recorded in 2018. Notably, lower the value of the metric, the better. If the sub-par performance persists, the stock might be affected significantly.
- ▼ 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 (\$479.3 million) were 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 Beat at Old Dominion in Q4

Old Dominion Freight Line's earnings per share of \$1.80 beat the Zacks Consensus Estimate by 2 cents. However, the bottom line declined 7.7% year over mainly due to higher operating expenses.

Revenues came in at \$1,009.2 million, edging past the Zacks Consensus Estimate of \$1,002.1 million. However, the top line fell 1.7% on a year-over-year basis mainly due to a decline in LTL (Less-Than-Truckload) tonnage as a result of a soft freight environment.

However, the company announced a 35.3% hike in quarterly dividend to 23 cents per share (annualized 92 cents). The first installment of the new dividend will be paid on March 18, to shareholders of record as of Mar 4, 2020.

### Other Details

In the quarter under review, Old Dominion reported a 4.5% decline in LTL tonnage. The major revenue generating segment — LTL services — logged a total of \$996.6 million, down 1.4% year over year.

However, LTL revenue per hundredweight was up 2.7% in the final quarter of 2019. The metric increased 4%, excluding fuel surcharges. However, LTL shipments declined 4.1%. Also, LTL weight per shipment fell marginally. Total operating expenses increased 1.6% to \$820.9 million. Operating expenses increased mainly due to a 3.6% rise in costs on salaries, wages & benefits.

With expenses increasing and revenues decreasing, another key metric — operating ratio (operating expenses as a percentage of revenues) —deteriorated to 81.3% in the fourth quarter of 2019 from 78.7% in the year-ago quarter. Notably, lower the value the better.

Old Dominion exited the 2019 with cash and cash equivalents of \$403.57 million compared with \$190.28 million at the end of 2018. Capital expenditures at the end of the fourth quarter was \$109 million. During the final quarter of 2019, Old Dominion rewarded its shareholders to the tune of \$49.2 million.

During 2019, the company incurred capital expenditures to the tune of \$479.3 million. Old Dominion expects capital expenditures of \$315 million in 2020. Of the total amount, \$245 million is anticipated to be invested in real estate and service-center expansion. The company expects to spend \$20 million and \$50 million toward tractors and trailers and technology and other assets, respectively. During the final quarter of 2019, Old Dominion rewarded its shareholders to the tune of \$49.2 million.

Quarter Ending **12/2019**

| Report Date      | Feb 06, 2020 |
|------------------|--------------|
| Sales Surprise   | 0.71%        |
| EPS Surprise     | 1.12%        |
| Quarterly EPS    | 1.20         |
| Annual EPS (TTM) | 5.10         |

## Recent News

### Bearish Updates on LTL Segment — Mar 04, 2020

LTL tons per day dipped 5.2% year over year in February due to 3.7% decrease in LTL shipments per day and a 1.5% slip in LTL weight per shipment. Consequently, revenue per day declined 1% in the month. However, LTL revenue per hundredweight registered an increase.

On a quarter-to-date basis, LTL revenue per hundredweight and LTL revenue per hundredweight excluding fuel surcharges rose 4.3% and 4.5%, respectively

## Valuation

Old Dominion shares are up 4.9% in the year-to-date period and down 38% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 7.4% and 25.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 44% and 25.6%, respectively.

The S&P 500 index is down 11.8% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 15.32X forward 12-month price-to-earnings, which compares to 18.83X for the Zacks sub-industry, 16.53X for the Zacks sector and 18.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.89X and as low as 8.57X, with a 5-year median of 13.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$141 price target reflects 16.26X 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       | 15.32 | 18.83        | 16.53  | 18.98   |
|                            | 5-Year High   | 20.89 | 25.09        | 17.05  | 19.34   |
|                            | 5-Year Low    | 8.57  | 13.25        | 10.47  | 15.19   |
|                            | 5-Year Median | 13.17 | 17.79        | 13.16  | 17.45   |
| EV/EBITDA TTM              | Current       | 14.47 | 8.55         | 6.43   | 10.4    |
|                            | 5-Year High   | 18.48 | 21.91        | 11.16  | 12.87   |
|                            | 5-Year Low    | 6.63  | 5.77         | 5.71   | 8.27    |
|                            | 5-Year Median | 11.15 | 8.42         | 7.39   | 10.78   |
| P/S F 12M                  | Current       | 2.41  | 1.37         | 0.95   | 3.16    |
|                            | 5-Year High   | 2.75  | 1.59         | 1.42   | 3.44    |
|                            | 5-Year Low    | 0.9   | 0.83         | 0.85   | 2.54    |
|                            | 5-Year Median | 1.6   | 1.23         | 1.21   | 3.01    |

As of 04/15/2020

## Industry Analysis Zacks Industry Rank: Bottom 15% (214 out of 253)



## Top Peers

|                                           |              |
|-------------------------------------------|--------------|
| FedEx Corporation (FDX)                   | 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      |
| ArcBest Corporation (ARCB)                | Underperform |

| Industry Comparison Industry: Transportation - Truck |              |            |           | Industry Peers |              |              |
|------------------------------------------------------|--------------|------------|-----------|----------------|--------------|--------------|
|                                                      | ODFL Neutral | X Industry | S&P 500   | JBHT Neutral   | SAIA Neutral | YRCW Neutral |
| <b>VGM Score</b>                                     | <b>C</b>     | -          | -         | <b>B</b>       | <b>B</b>     | <b>B</b>     |
| Market Cap                                           | 15.87 B      | 798.87 M   | 19.18 B   | 10.71 B        | 1.92 B       | 65.77 M      |
| # of Analysts                                        | 9            | 4.5        | 14        | 10             | 8            | 3            |
| Dividend Yield                                       | 0.46%        | 0.46%      | 2.24%     | 1.07%          | 0.00%        | 0.00%        |
| <b>Value Score</b>                                   | <b>D</b>     | -          | -         | <b>D</b>       | <b>C</b>     | <b>A</b>     |
| Cash/Price                                           | 0.02         | 0.05       | 0.06      | 0.00           | 0.00         | 1.79         |
| EV/EBITDA                                            | 14.39        | 5.82       | 11.46     | 9.70           | 7.49         | 3.28         |
| PEG Ratio                                            | 3.41         | 1.42       | 2.08      | 1.27           | NA           | NA           |
| Price/Book (P/B)                                     | 5.16         | 1.75       | 2.58      | 4.69           | 2.35         | NA           |
| Price/Cash Flow (P/CF)                               | 18.29        | 6.60       | 10.15     | 10.43          | 8.28         | 0.26         |
| P/E (F1)                                             | 25.32        | 17.96      | 17.24     | 19.01          | 16.16        | NA           |
| Price/Sales (P/S)                                    | 3.86         | 0.94       | 1.99      | 1.14           | 1.08         | 0.01         |
| Earnings Yield                                       | 4.01%        | 5.37%      | 5.64%     | 5.26%          | 6.19%        | -93.14%      |
| Debt/Equity                                          | 0.01         | 0.20       | 0.70      | 0.57           | 0.14         | -2.50        |
| Cash Flow (\$/share)                                 | 7.26         | 4.97       | 7.01      | 9.67           | 8.91         | 6.61         |
| <b>Growth Score</b>                                  | <b>B</b>     | -          | -         | <b>A</b>       | <b>A</b>     | <b>C</b>     |
| Hist. EPS Growth (3-5 yrs)                           | 23.76%       | 12.50%     | 10.92%    | 11.91%         | 20.02%       | -38.92%      |
| Proj. EPS Growth (F1/F0)                             | 4.19%        | -1.59%     | -2.92%    | 8.45%          | 7.95%        | 47.92%       |
| Curr. Cash Flow Growth                               | 3.97%        | -0.06%     | 5.93%     | -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                                        | 2.37         | 1.51       | 1.24      | 1.54           | 0.96         | 0.95         |
| Debt/Capital                                         | 1.44%        | 19.99%     | 42.36%    | 36.34%         | 12.55%       | NA           |
| Net Margin                                           | 14.98%       | 5.58%      | 11.64%    | 5.71%          | 6.36%        | -2.14%       |
| Return on Equity                                     | 21.30%       | 12.75%     | 16.74%    | 24.76%         | 14.52%       | NA           |
| Sales/Assets                                         | 1.07         | 1.46       | 0.54      | 1.73           | 1.31         | 2.57         |
| Proj. Sales Growth (F1/F0)                           | 2.26%        | -1.64%     | 0.00%     | 0.72%          | 3.52%        | -3.73%       |
| <b>Momentum Score</b>                                | <b>C</b>     | -          | -         | <b>C</b>       | <b>B</b>     | <b>F</b>     |
| Daily Price Chg                                      | -0.55%       | -1.67%     | -3.26%    | 2.99%          | -5.41%       | 0.00%        |
| 1 Week Price Chg                                     | 10.32%       | 15.48%     | 16.01%    | 10.51%         | 29.03%       | 19.12%       |
| 4 Week Price Chg                                     | 17.83%       | 5.15%      | 16.73%    | 19.07%         | -5.22%       | -3.85%       |
| 12 Week Price Chg                                    | -1.80%       | -27.19%    | -22.44%   | -11.86%        | -21.92%      | -27.54%      |
| 52 Week Price Chg                                    | 26.78%       | -26.68%    | -14.41%   | 2.34%          | 7.07%        | -77.74%      |
| 20 Day Average Volume                                | 1,070,747    | 292,359    | 3,301,889 | 1,035,826      | 352,545      | 1,596,837    |
| (F1) EPS Est 1 week change                           | 0.00%        | -0.75%     | 0.00%     | -2.96%         | 0.00%        | 0.00%        |
| (F1) EPS Est 4 week change                           | -5.09%       | -5.84%     | -6.78%    | -4.62%         | -7.80%       | -106.33%     |
| (F1) EPS Est 12 week change                          | -5.15%       | -11.26%    | -9.07%    | -9.54%         | -11.08%      | -310.92%     |
| (Q1) EPS Est Mthly Chg                               | -17.12%      | -18.20%    | -11.31%   | -18.00%        | -23.57%      | -2,875.00%   |

## 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>D</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>C</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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