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Jan 06, 2020

Schneider National (SNDR)

$22.39 (As of 01/03/20)

Price Target (6-12 Months): **$24.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/03/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: A | Momentum: D	

Summary

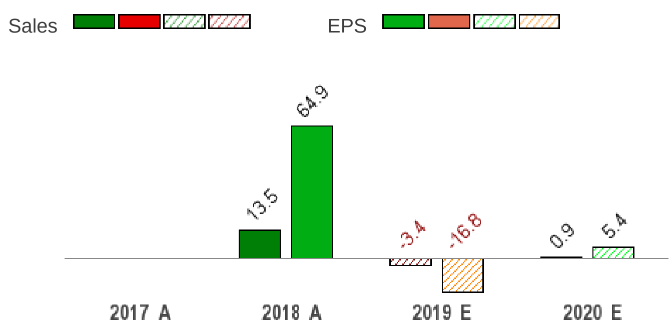
Shares of Schneider National have outperformed its industry in a year's time, primarily owing to strength in its intermodal unit. Revenues at the segment increased 8.4% in the first nine months of 2019. Expanded order volumes should have driven segmental revenues in the fourth quarter as well. Detailed results will be available on Jan 29. The company's cost-control measures are appreciative as well. Sustained cost-reduction efforts should boost the bottom line going forward. Its debt-reduction measures are encouraging too. However, weakness in the truckload segment due to soft freight demand is affecting its performance. Segmental revenues declined 6.1% in the first nine months of 2019. Revenues at the logistics division also decreased 4.9% in the period. Due to these headwinds, the company trimmed its 2019 earnings guidance twice.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$24.38 - $16.59**
20 Day Average Volume (sh)	**477,601**
Market Cap	**$4.0 B**
YTD Price Change	**2.6%**
Beta	**1.55**
Dividend / Div Yld	**$0.24 / 1.1%**
Industry	**Transportation - Services**
Zacks Industry Rank	**Bottom 19% (204 out of 252)**
Last EPS Surprise	**-8.6%**
Last Sales Surprise	**-3.3%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**01/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**16.5**
P/E F1	**16.5**
PEG F1	**1.7**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,178 E	1,220 E	1,218 E	1,263 E	4,853 E
2019	1,194 A	1,213 A	1,184 A	1,227 E	4,808 E
2018	1,139 A	1,236 A	1,280 A	1,322 A	4,977 A

EPS Estimates

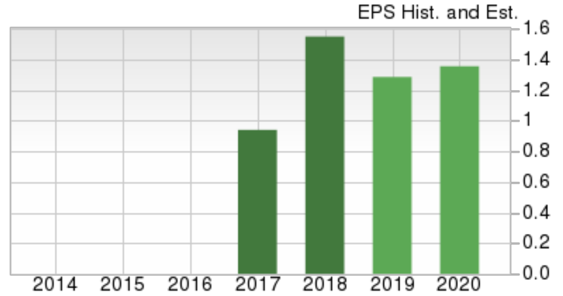
	Q1	Q2	Q3	Q4	Annual*
2020	$0.24 E	$0.34 E	$0.35 E	$0.43 E	$1.36 E
2019	$0.21 A	$0.34 A	$0.32 A	$0.42 E	$1.29 E
2018	$0.27 A	$0.40 A	$0.40 A	$0.49 A	$1.55 A

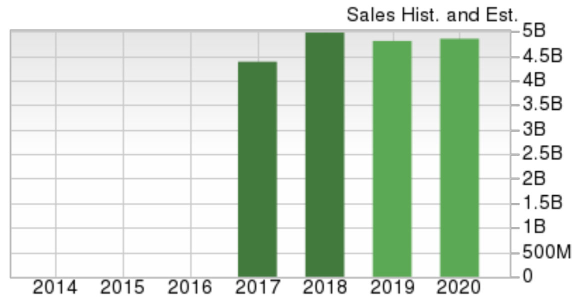
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Schneider National, headquartered in Brown County, WI , is a leading transportation and logistics services company. Founded in 1935, the company offers a portfolio of premier truckload, intermodal and logistics solutions.





Additionally, Schneider National, which went public in April 2017, operates one of the largest for-hire trucking fleets in North America. The company served approximately 17,000 customers, including many well-known companies, as of Dec 31, 2018.

The company's offerings include dry van, bulk transport, intermodal and supply chain management. The company operates through the truckload (45.6% of 2018 revenues), intermodal (19.2%) and logistics (20.6%) segments. Moreover, 10.5% and 6.5% of total revenues came from fuel surcharges and other sources.

The **truckload segment** includes freight transported and delivered with standard and specialty equipment. Services offered by the company through this division include standard long-haul and regional shipping through dry van equipment, bulk, temperature-controlled and customized solutions for high-value and time-sensitive loads.

Schneider National executes the services through either for-hire or dedicated contracts. Dedicated standard, dedicated speciality, for-hire standard and for-hire speciality are the four quadrants of the company's truckload segment.

Truckload income from operations increased 23% on a year-over-year basis in 2018, primarily due to contract price improvements. In 2019, the company shutdown its First to Final Mile (FTFM) operations within the truckload segment due to its below-par performance.

The **intermodal** unit focuses on door-to-door container on flat car service offered through the combination of rail and over-the-road transportation. The services, offered in association with its rail carrier partners, utilize company-owned containers, chassis, and trucks. Segmental income from operations surged 149% in 2018 compared with 2017 levels.

Through its **logistics** segment, Schneider National offers services like non-asset freight brokerage, supply chain (including 3PL), and import/export. The business offers value-added services using third-party capacity to manage/move freight of its customers.

Schneider National's fiscal year coincides with the calendar year.

Reasons To Buy:

▲ Impressive performance of the intermodal unit bodes well and should continue to aid results going forward. Revenues at the segment increased 8.4% in the first nine months of 2019. The unit is benefiting from rise in revenue per order (up 9.1% in the first nine months of 2019) owing to robust pricing. Increase in order volumes is expected to have induced an uptick in segmental revenues in the fourth quarter as well.

> Impressive performance of the intermodal unit is encouraging and should continue to aid results going forward.

▲ Schneider National's cost-containment measures are commendable. In fact, with consistent attempts to reduce costs, its expenses on salaries, wages and benefits (second largest component of total expenses) have declined 9.2% in the first nine months of 2019. Sustained cost-reduction efforts are likely to reflect in the company's bottom line in the fourth quarter.

▲ Schneider National's endeavors to control debt are also noteworthy. Evidently, the company's long-term debt-to-equity ratio currently stands at 13.9%, much lower than the industry's average of 78.3%. We are also impressed with the company's efforts to reward shareholders.

Reasons To Sell:

- Weakness in the truckload segment (which generates maximum revenues) since the beginning of 2019 is concerning. Notably, revenues declined 6.1% in the first nine months of 2019 due to lower freight demand in the face of higher truck capacity. Additionally, revenues at the logistics division fell 4.9% in the first nine months of 2019. Due to below-par performances of its key segments, total operating revenues dipped almost 2% in the first nine months of 2019. The company is likely to have witnessed soft revenues in the December quarter as well due to this headwind.

Disappointing performance of the truckload segment (since the beginning of the year) is concerning.

- We are also disappointed with the company's decision to trim its 2019 earnings guidance in August and October. The company expects 2019 adjusted earnings per share to have been in the $1.24-$1.30 range, lower than the previous projection of $1.30-$1.38. The slashed view is mainly due to the tractor impairment charge of $11.5 million recognized in the September quarter.

- Following its annual meeting in April 2019, Schneider National witnessed a change at its helm when Chris Lofgren, president and chief executive officer for 17 years, retired. Lofgren was succeeded by Mark Rourke. In the event of Rourke failing to replicate the success of Lofgren, investor confidence in Schneider National might be subdued, thereby impacting the stock price negatively. Moreover, Schneider National's return on equity (ROE) undercuts its growth potential. The ROE (expressed as a percentage) for the company is currently 11.1 compared with 15.6 for its industry.

Last Earnings Report

Earnings Miss at Schneider National in Q3

Quarter Ending	09/2019
Report Date	Oct 31, 2019
Sales Surprise	-3.33%
EPS Surprise	-8.57%
Quarterly EPS	0.32
Annual EPS (TTM)	1.36

Schneider National's earnings (excluding 21 cents from non-recurring items) of 32 cents per share missed the Zacks Consensus Estimate by 3 cents. The bottom line also decreased 20% year over year. Also, operating revenues dipped 7.52% to $1183.9 million, lagging the Zacks Consensus Estimate of $1,224.7 million. Moreover, revenues (excluding fuel surcharge) decreased 7% to $1,069.7 million. Results were hampered by lower volumes and unfavorable pricing.

Moreover, income from operations (on a reported basis) plunged 70% to $29 million in the third quarter mainly due to the $50.4 million charges pertaining to the first to final mile shutdown (FTFM) within the truckload unit. Also, adjusted operating ratio (operating expenses as a percentage of revenues) deteriorated 110 basis points to 92.6%.

Segmental Highlights

Truckload revenues (excluding fuel surcharge) declined 9% to $515.6 million. Average trucks (company trucks and owner-operated trucks) in the segment declined 4.2% to 10, 919. Revenue per truck per week for the segment dropped 6%. This downside was due to lower volumes and unfavorable pricing.

Loss from operations at the segment was $12.5 million compared with income from operations of $54.4 million a year-ago due to FTFM shutdown, tractor impairment charges, lower price and volume. Moreover, operating ratio deteriorated to 102.4% compared with 90.4% in the year-ago period. Lower the value of the ratio the better.

Intermodal revenues (excluding fuel surcharge) declined 2% to $249.2 million with orders declining 4% mainly due to unfavorable volumes in the domestic intermodal freight market. Segmental income from operations decreased 30% as a result of reduced volumes and higher purchased third-party costs. Additionally, intermodal operating ratio deteriorated to 89.9% in the reported quarter from 85.8% in the year-ago period.

Logistics revenues (excluding fuel surcharge) dropped 13% to $236.1 million mainly due to a customer in-sourcing activity at the import/export operations in the segment. Brokerage accounted for 86.9% of logistics revenues (excluding fuel surcharge) in the quarter compared with 79.1% in the prior year, with brokerage volume increasing 11% year over year.

However, brokerage net revenue compression primarily resulted in 24% decline in segmental income from operations. Further, operating ratio at the segment deteriorated to 95.8% from 95.2% in the third quarter of 2018.

2019 EPS View Trimmed

The company expects full-year adjusted earnings per share between $1.24 and $1.30, lower than the previous projection of $1.30-$1.38. The reduction in guidance is mainly due to the tractor impairment charge of $11.5 million recognized in the September quarter. Meanwhile, the forecast for net capital expenditures has been reduced to $310 million from $325 million mainly due to the anticipation of higher proceeds from sale of tractors.

Recent News

Dividend Update – Oct 30, 2019

Schneider National's board of directors declared a quarterly cash dividend of 6 cents per share on its Class A and Class B common stock. The amount, expected to be paid on Jan 9, 2020, is payable to its shareholders of record as of Dec 13.

Valuation

Schneider National's shares are up 15.2% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 11.7% and 15.8% respectively.

The S&P 500 index is up 25.7% over the past year.

The stock is currently trading at 16.49X forward 12-month price-to earnings, which compares to 18.55X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past two years, the stock has traded as high as 25.39X and as low as 10.22X, with a median of 15.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $24 price target reflects 17.65X forward 12-month earnings.

The table below shows summary valuation data for SNDR

Valuation Multiples - SNDR

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	16.49	18.55	13.01	18.71
	2-Year High	25.39	25.39	15.7	19.14
	2-Year Low	10.22	16.27	11.93	15.17
	2-Year Median	15.39	18.18	13.11	17.14
EV/EBITDA TTM	Current	6.4	12.96	7.89	11.99
	2-Year High	16.13	17.22	11.1	12.86
	2-Year Low	4.42	12.15	7.32	9.33
	2-Year Median	6.82	13.62	8.18	11.2
P/S F 12M	Current	0.82	1.51	1.13	3.47
	2-Year High	1.12	1.7	1.4	3.47
	2-Year Low	0.55	1.35	1.03	2.76
	2-Year Median	0.79	1.49	1.15	3.17

As of 01/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 19% (204 out of 252)

Top Peers

Expeditors International of Washington, Inc. **(EXPD)**	Neutral
Hub Group, Inc. **(HUBG)**	Neutral
J.B. Hunt Transport Services, Inc. **(JBHT)**	Neutral
Landstar System, Inc. **(LSTR)**	Neutral
XPO Logistics, Inc. **(XPO)**	Neutral
ZTO Express (Cayman) Inc. **(ZTO)**	Neutral
C.H. Robinson Worldwide, Inc. **(CHRW)**	Underperform
Knight-Swift Transportation Holdings Inc. **(KNX)**	Underperform

Industry Comparison Industry: Transportation - Services

Industry Peers

	SNDR Neutral	**X Industry**	**S&P 500**	**CHRW** Underperform	**EXPD** Neutral	**LSTR** Neutral
VGM Score	B	-	-	B	A	B
Market Cap	3.97 B	1.78 B	23.66 B	10.51 B	13.26 B	4.47 B
# of Analysts	7	2	13	10	5	10
Dividend Yield	1.07%	0.00%	1.79%	2.62%	1.28%	0.65%
Value Score	B	-	-	C	D	C
Cash/Price	0.13	0.07	0.04	0.04	0.09	0.07
EV/EBITDA	5.66	8.46	13.88	11.65	14.17	11.24
PEG Ratio	1.65	1.87	1.99	1.98	NA	1.56
Price/Book (P/B)	1.81	2.65	3.36	6.29	6.02	5.92
Price/Cash Flow (P/CF)	7.00	8.34	13.62	14.04	19.99	15.22
P/E (F1)	16.11	16.54	18.74	17.82	20.86	18.75
Price/Sales (P/S)	0.81	0.76	2.67	0.67	1.59	1.05
Earnings Yield	6.07%	5.64%	5.32%	5.61%	4.79%	5.33%
Debt/Equity	0.14	0.34	0.72	0.75	0.14	0.08
Cash Flow ($/share)	3.20	2.25	6.94	5.54	3.89	7.45
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	NA%	12.57%	10.56%	9.22%	12.96%	18.15%
Proj. EPS Growth (F1/F0)	5.44%	18.32%	7.41%	-2.01%	5.36%	2.65%
Curr. Cash Flow Growth	28.69%	11.78%	14.83%	29.95%	34.54%	50.82%
Hist. Cash Flow Growth (3-5 yrs)	NA%	10.51%	9.00%	9.99%	11.13%	16.49%
Current Ratio	2.19	1.45	1.23	1.87	2.34	2.01
Debt/Capital	12.20%	26.54%	42.92%	42.82%	12.43%	7.51%
Net Margin	3.58%	1.22%	11.08%	4.25%	7.56%	5.76%
Return on Equity	11.12%	11.12%	17.10%	40.43%	30.20%	33.90%
Sales/Assets	1.29	1.28	0.55	3.39	2.34	3.13
Proj. Sales Growth (F1/F0)	0.93%	3.69%	4.20%	1.59%	3.04%	0.04%
Momentum Score	D	-	-	D	A	D
Daily Price Chg	1.27%	-0.32%	-0.61%	-0.12%	-0.61%	-0.08%
1 Week Price Chg	-1.10%	0.36%	0.13%	1.47%	1.40%	-0.10%
4 Week Price Chg	0.49%	3.88%	2.60%	1.87%	6.47%	3.11%
12 Week Price Chg	4.48%	12.35%	8.87%	-7.81%	7.99%	2.26%
52 Week Price Chg	20.64%	19.75%	29.34%	-2.73%	19.84%	19.59%
20 Day Average Volume	477,601	90,839	1,603,615	959,215	877,457	190,492
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.59%	0.00%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	-0.83%	0.79%	-0.28%
(F1) EPS Est 12 week change	-4.36%	-1.65%	-0.57%	-10.85%	-0.37%	-4.44%
(Q1) EPS Est Mthly Chg	-2.04%	0.00%	0.00%	-2.79%	0.00%	1.29%

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	A
Momentum Score	D
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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