

Schneider National (SNDR)

\$27.23 (As of 08/21/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Low freight volumes amid coronavirus concerns are weighing on Schneider National's performance. Akin to the first quarter, second quarter 2020 results were hampered by lower volumes and price, downside in fuel surcharge revenues and coronavirus led disruptions. Decline in truckload revenues due to weak freight demand is worrisome especially because the unit generates bulk of the total revenues. Notably, operating revenues declined 15% on year over year basis during the June end quarter. Also, bottom line decreased 23.5% due to the 110- basis point deterioration of operating ratio to 93.4%. Adjusted income from operations fell 24% to \$63.6 million in the June-end quarter. However, amid the coronavirus crisis, it restored the 2020 view. Cost cutting efforts are impressive too. They are supporting the bottom line in the face of revenue-weakness.

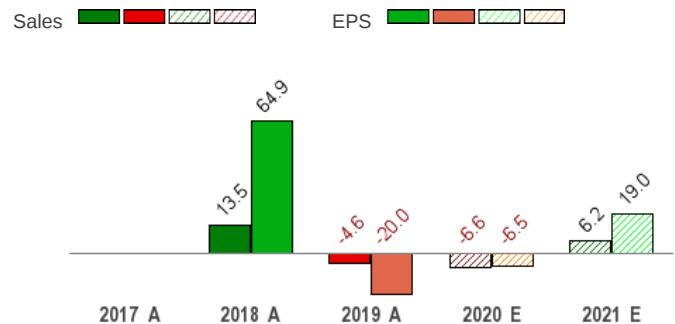
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.34 - \$15.36
20 Day Average Volume (sh)	549,643
Market Cap	\$4.8 B
YTD Price Change	24.9%
Beta	1.08
Dividend / Div Yld	\$0.26 / 1.0%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 31% (173 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.8%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	15.3%
Expected Report Date	NA
Earnings ESP	1.1%
P/E TTM	22.9
P/E F1	23.5
PEG F1	2.4
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,103 E	1,142 E	1,182 E	1,227 E	4,708 E
2020	1,119 A	1,033 A	1,102 E	1,145 E	4,435 E
2019	1,194 A	1,213 A	1,184 A	1,156 A	4,747 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.34 E	\$0.35 E	\$0.44 E	\$1.38 E
2020	\$0.24 A	\$0.26 A	\$0.30 E	\$0.37 E	\$1.16 E
2019	\$0.21 A	\$0.34 A	\$0.32 A	\$0.37 A	\$1.24 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 08/21/2020. The reports text is as of 08/24/2020.

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 14,900 customers, including many well-known companies, as of Dec 31, 2019.

The company's offerings include dry van, bulk transport, intermodal and supply chain management. The company operates through the truckload (43.7% of 2019 revenues), intermodal (21.2%) and logistics (19.7%) segments. Moreover, 9.8% and 7.8% 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.

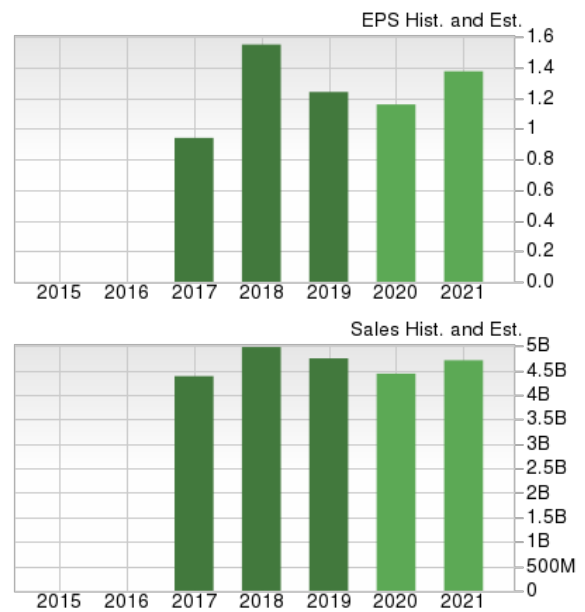
Schneider National executes the services through either for-hire or dedicated contracts. Dedicated standard, dedicated specialty, for-hire standard and for-hire specialty are the four quadrants of the company's truckload segment.

Truckload income from operations plunged 75.1% on a year-over-year basis in 2019, primarily due to losses from its First to Final Mile (FTFM) operations and restructuring charges related to its shutdown. The company shutdown its FTFM operations in 2019 due to 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 decreased 17.4% in 2019 compared with 2018 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:

- ▲ Low fuel costs, cost-cutting initiatives and the closure of Schneider National's unprofitable FTFM operations in 2019, is aiding the company. Evidently, income from operations (on a reported basis) increased 29% during the second quarter owing to the above mentioned factors. Also, amid coronavirus-led uncertainties, the company has restored its 2020 outlook.
- ▲ Despite coronavirus-related adversities, the company's logistics revenues (excluding fuel surcharge) inched up 2% in the June quarter to \$230.9 million, primarily due to increased volumes. Also, margins improved 180 basis points sequentially from the first quarter. The company expects its Intermodal margins to improve during the third quarter.
- ▲ Total debt to total capital ratio, which is an indicator of a company's leverage, stood at 0.12 and 0.13 for Schneider National at the end of the second quarter and first quarter respectively. A low reading is favorable as it implies less dependence of the company on debt to finance its assets. Moreover, cash and cash equivalents at Schneider National stood at \$761 million at the end of the second quarter, way above the current debt figure of \$30 million, implying that the company has sufficient cash to meet its current debt burden.

The company's measures to reward shareholders despite coronavirus-concerns are appreciative.

Reasons To Sell:

- ▼ Schneider National is taking a hit from the coronavirus pandemic. The 15% decline in second-quarter revenues reflects coronavirus-led disruptions among other factors. Low freight volumes are weighing on the company's performance. As has been the case in the first quarter, second quarter results were hampered by lower volumes and price, downside in fuel surcharge revenues and coronavirus led disruptions.
- ▼ Decline in truckload (major revenue generating segment) revenues due to lower volumes and unfavorable pricing is quite concerning. Notably, revenues at the unit slipped 16% year over year in the second quarter. Additionally, intermodal revenues declined in the quarter due to weak Asia import volumes combined with the prolonged shutdown of non-essential retail customers. Moreover, segmental income from operations decreased 64% as a result of increased rail purchased transportation costs.
- ▼ Schneider National's return on equity (ROE) undercuts its growth potential. The ROE (expressed as a percentage) for the company is currently 9.4 compared with 11 for its industry.

Low freight volumes amid coronavirus concerns are weighing on the company's performance.

Last Earnings Report

Earnings Beat at Schneider National in Q2

Schneider National second-quarter 2020 earnings of 26 cents per share surpassed the Zacks Consensus Estimate by 7 cents. However, the bottom line declined 23.5% on a year-over-year basis. Operating revenues dropped 15% to \$1,032.8 million and lagged the Zacks Consensus Estimate of \$1,040 million. Moreover, revenues (excluding fuel surcharge) fell 11% to \$964.1 million. Results were hampered by lower volumes and price, downside in fuel surcharge revenues and coronavirus-led disruptions.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-0.69%
EPS Surprise	36.84%
Quarterly EPS	0.26
Annual EPS (TTM)	1.19

Income from operations (on a reported basis) increased 29% from the prior-year quarter's level to \$63.4 million. Adjusted income from operations dropped 24% to \$63.6 million in the June-end quarter. Also, adjusted operating ratio (operating expenses as a percentage of revenues) deteriorated 110 basis points to 93.4%. Notably, lower the value of the ratio, the better.

Segmental Highlights

Truckload revenues (excluding fuel surcharge) slipped 16% to \$451.1 million. Average trucks (company trucks and owner-operated trucks) in the segment also fell 11.7% to 10,241. Further, revenue per truck per week in the segment dropped 4.3%. This downside was mainly due to shutdown of FTFM operations, lower volumes and unfavorable pricing. Truckload income from operations was \$40.5 million in the reported quarter, an increase of more than 100%. Moreover, adjusted operating ratio improved to 91% from 98.5% in the year-ago quarter.

Intermodal revenues (excluding fuel surcharge) were \$219 million, a decrease of 16% from second quarter 2019. Revenue per order declining 6.3%, primarily due to weak Asia import volumes combined with the prolonged shutdown of non-essential retail customers. Segmental income from operations declined 64% to \$11 million as a result increased rail purchased transportation costs. Additionally, intermodal operating ratio deteriorated to 95% in the second quarter from the prior-year quarter's 88.2%.

Logistics revenues (excluding fuel surcharge) inched up 2% to \$230.9 million, primarily due to increased volumes. Logistics income from operations dipped 11% on a year-on-year basis due to lower net revenues per order. Further, operating ratio in the segment deteriorated to 96.4% from 96% in the second quarter of 2020.

Liquidity

Schneider exited the second quarter with cash and cash equivalents of \$713.8 million compared with \$551.6 million at the end of 2019.

2020 EPS Guidance

Despite persisting COVID-19 led uncertainties, the company believes that the most significant impact of this unprecedented crisis on its operations was witnessed in the June quarter. Consequently, Schneider restored its full year 2020 EPS guidance. The company expects its adjusted EPS to be within the range of \$1.10-\$1.25. Also, the company anticipates its net capital expenditures to be approximately at \$260 million.

During the second half of 2020, Schneider expects gradual improvement in its overall operating conditions from increased demand and tighter capacity along with subsequent improvement in its Intermodal margins.

Recent News

Collaborates with Blue Yonder — May 27, 2020

Schneider National in partnership with Blue Yonder to deliver a new carrier marketplace within the Blue Yonder transportation management solution.

Valuation

Schneider National shares are up 24.9% and 47.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 4.3% but down 0.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 17.8% and 9.4% respectively.

The S&P 500 index is up 5.4% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 20.99X forward 12-month price-to earnings, which compares to 30.33X for the Zacks sub-industry, 29.26X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past two years, the stock has traded as high as 22.34X and as low as 10.22X, with a median of 14.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29.00 price target reflects 22.5X 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 F12 M	Current	20.99	30.33	29.26	22.85
	2-Year High	22.34	32.29	33.11	22.85
	2-Year Low	10.22	16.35	11.19	15.25
	2-Year Median	14.19	18.03	13.06	17.42
EV/EBITDA TTM	Current	7.89	14.9	10.36	12.86
	2-Year High	12.81	17.21	11.07	12.86
	2-Year Low	4.39	8.97	5.4	8.25
	2-Year Median	6.18	13.02	7.73	10.92
P/S F 12M	Current	1.05	1.72	1.35	3.71
	2-Year High	1.05	1.72	1.35	3.71
	2-Year Low	0.55	1.23	0.84	2.76
	2-Year Median	0.76	1.46	1.13	3.19

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (173 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Expeditors International of Washington, Inc. (EXPD)	Outperform	2
KnightSwift Transportation Holdings Inc. (KNX)	Outperform	1
Landstar System, Inc. (LSTR)	Outperform	1
C.H. Robinson Worldwide, Inc. (CHRW)	Neutral	3
Hub Group, Inc. (HUBG)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
XPO Logistics, Inc. (XPO)	Neutral	3
ZTO Express Cayman Inc. (ZTO)	Neutral	4

Industry Comparison Industry: Transportation - Services				Industry Peers		
	SNDR	X Industry	S&P 500	CHRW	EXPD	LSTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	3	2	1
VGM Score	B	-	-	A	B	C
Market Cap	4.83 B	934.20 M	23.62 B	13.01 B	14.47 B	5.10 B
# of Analysts	7	3	14	12	5	8
Dividend Yield	0.95%	0.00%	1.65%	2.11%	1.21%	0.63%
Value Score	B	-	-	B	C	C
Cash/Price	0.17	0.09	0.07	0.03	0.08	0.06
EV/EBITDA	8.63	7.71	13.29	16.30	16.12	14.19
PEG Ratio	2.42	3.59	3.03	3.09	NA	2.70
Price/Book (P/B)	2.10	3.04	3.11	7.63	6.69	7.85
Price/Cash Flow (P/CF)	9.41	8.27	12.69	19.26	22.91	19.26
P/E (F1)	23.60	25.48	21.51	27.81	24.63	32.41
Price/Sales (P/S)	1.08	0.95	2.43	0.86	1.68	1.36
Earnings Yield	4.26%	2.97%	4.46%	3.60%	4.06%	3.09%
Debt/Equity	0.13	0.64	0.76	0.64	0.17	0.09
Cash Flow (\$/share)	2.90	1.96	6.93	5.01	3.77	6.89
Growth Score	B	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	6.72%	7.94%	10.44%	4.99%	12.12%	16.72%
Proj. EPS Growth (F1/F0)	-6.56%	-53.60%	-5.53%	-17.20%	1.57%	-28.39%
Curr. Cash Flow Growth	-9.43%	-0.60%	5.20%	-11.01%	-4.59%	-8.92%
Hist. Cash Flow Growth (3-5 yrs)	7.13%	13.37%	8.52%	5.98%	8.52%	10.35%
Current Ratio	3.15	1.51	1.33	1.56	2.22	1.77
Debt/Capital	11.73%	40.94%	44.50%	39.07%	14.29%	8.48%
Net Margin	3.69%	0.82%	10.13%	3.10%	7.02%	4.48%
Return on Equity	9.45%	7.26%	14.67%	28.22%	28.08%	26.42%
Sales/Assets	1.20	1.08	0.51	3.18	2.34	2.82
Proj. Sales Growth (F1/F0)	-6.58%	-0.55%	-1.54%	-2.07%	8.59%	-11.71%
Momentum Score	F	-	-	B	C	F
Daily Price Chg	2.48%	0.00%	-0.15%	-0.04%	-0.66%	1.04%
1 Week Price Chg	4.38%	2.21%	1.09%	-0.74%	0.76%	1.62%
4 Week Price Chg	7.88%	8.20%	1.64%	13.21%	7.34%	8.90%
12 Week Price Chg	15.03%	21.95%	6.72%	19.33%	14.05%	14.91%
52 Week Price Chg	43.35%	9.11%	1.00%	15.25%	22.85%	21.13%
20 Day Average Volume	549,643	117,679	1,873,576	1,611,271	1,175,820	297,333
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.16%
(F1) EPS Est 4 week change	15.34%	1.87%	1.79%	25.94%	15.80%	11.60%
(F1) EPS Est 12 week change	15.34%	12.60%	3.35%	21.80%	16.96%	11.25%
(Q1) EPS Est Mthly Chg	18.11%	16.44%	0.42%	19.02%	12.05%	16.33%

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	F
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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