

Schneider National (SNDR)

\$19.00 (As of 03/30/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Schneider National is being aided by impressive performance of the intermodal unit. Segmental revenues increased 5.4% in 2019 due to robust pricing. The company's measures to reward shareholders are also appreciative. In January, it increased the quarterly dividend payout by 8.3%. Schneider National's debt-control efforts are also praiseworthy. The company's 2020 earnings view also holds promise. However, the company is taking a hit from dismal performance of its major revenue-generating segment, truckload. Segmental revenues declined 8.3% in 2019 due to lower volumes and unfavorable pricing. Also, coronavirus-led concerns are likely to hurt first quarter results. Moreover, closure of FTM operations within the truckload unit bumped up costs. Due to these headwinds, Schneider's shares have underperformed its industry in a year.

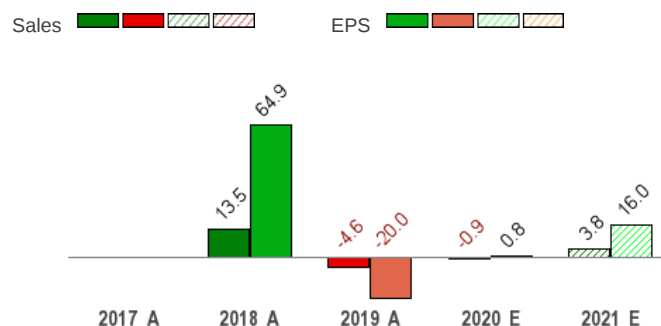
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.38 - \$15.36
20 Day Average Volume (sh)	870,493
Market Cap	\$3.4 B
YTD Price Change	-12.9%
Beta	1.65
Dividend / Div Yld	\$0.26 / 1.4%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 20% (202 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.1%
Last Sales Surprise	-5.6%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	04/30/2020
Earnings ESP	0.0%
P/E TTM	15.3
P/E F1	15.2
PEG F1	1.6
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,120 E	1,178 E	1,253 E	1,246 E	4,882 E
2020	1,127 E	1,176 E	1,215 E	1,208 E	4,703 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	\$0.42 E	\$0.24 E	\$0.34 E	\$0.36 E	\$1.45 E
2020	\$0.39 E	\$0.20 E	\$0.28 E	\$0.34 E	\$1.25 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 03/30/2020. The reports text is as of 03/31/2020.

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.

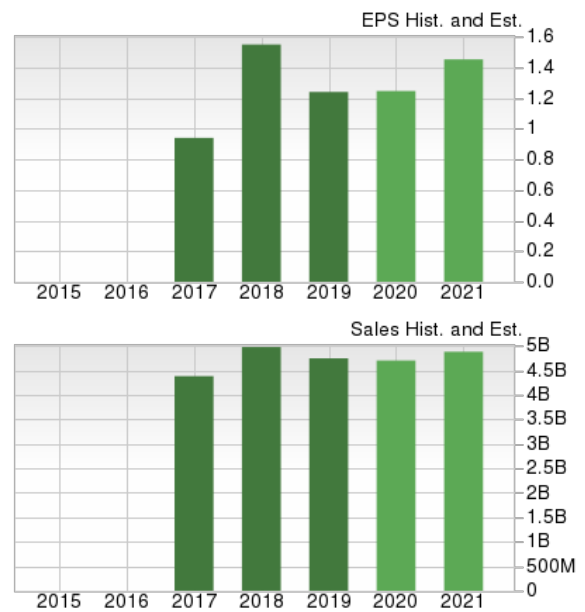
Schneider National executes the services through either for-hire or dedicated contracts. Dedicated standard, dedicated specialty, for-hire standard and for-hire specialty are the four quadrants of the company's truckload segment.

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:

▲ Impressive performance of the intermodal unit bodes well and should continue to aid results going forward. Revenues at the segment increased 5.4% in 2019. The unit is benefiting from rise in revenue per order (up 5.5% in 2019) owing to robust pricing. Increase in order volumes is expected to have induced an uptick in segmental revenues going forward as well.

▲ We are impressed by the company's efforts to reward its shareholders. In a shareholder-friendly move, in January, the company increased its quarterly dividend payout by 8.3% to 6.5 cents per share. Notably, investors always prefer an income-generating stock.

▲ Schneider National's endeavors to control debt are also noteworthy. Evidently, the company's long-term debt-to-equity ratio currently stands at 13.7%, much lower than the industry's average of 78.3%. The company's earnings per share guidance for the full year is also encouraging. For 2020, earnings are anticipated in the range of \$1.25-\$1.35 per share. The company reported earnings of \$1.24 in 2019.

Impressive performance of the intermodal unit should continue to aid results.

Reasons To Sell:

- ▼ Weakness in the truckload segment (which generates maximum revenues) is concerning. Notably, revenues declined 8.3% in 2019 due to lower freight demand in the face of higher truck capacity. Additionally, revenues at the logistics division fell 8.7% in 2019. Due to below-par performances of its key segments, total operating revenues dipped 4.6% in 2019.
- ▼ Deterioration in operating ratio (operating expenses as a % of revenues) is concerning. Evidently, the metric (on an adjusted basis) came in at 95.6% in 2019, compared with 92.4% in 2018. Notably, lower the value of the ratio the better.
- ▼ Moreover, coronavirus-led concerns are worrisome and is likely to hurt first quarter results. Schneider National's return on equity (ROE) undercuts its growth potential. The ROE (expressed as a percentage) for the company is currently 10 compared with 15.6 for its industry. Due to the above-mentioned headwinds, shares of the company have underperformed its industry in a year.

Disappointing performance of the truckload segment is concerning.

Last Earnings Report

Earnings Miss at Schneider National in Q4

Schneider National's earnings (excluding 6 cents from non-recurring items) of 37 cents per share missed the Zacks Consensus Estimate by 2 cents. The bottom line also declined 24.5% year over year. Also, operating revenues dipped 12.5% to \$1,156.3 million, lagging the Zacks Consensus Estimate of \$1,224.6 million. Moreover, revenues (excluding fuel surcharge) decreased 12% to \$1,040.5 million. Results were hampered by lower volumes and unfavorable pricing.

Moreover, income from operations (on a reported basis) plunged 34.1% to \$78.1 million in the fourth quarter, mainly due to the \$13.3-million charges regarding the first-to-final mile shutdown (FTFM) within the truckload unit. Adjusted income from operations declined 24% to \$91.4 million in the December-end quarter. Also, adjusted operating ratio (operating expenses as a percentage of revenues) shrunk 140 basis points to 91.2%. Notably, lower the value of the ratio the better.

Segmental Highlights

Truckload revenues (excluding fuel surcharge) slipped 15% to \$494.5 million. Average trucks (company trucks and owner-operated trucks) in the segment also fell 10.5% to 10,356. Further, revenue per truck per week for the segment dropped 4.3%. This downside was mainly due to unfavorable pricing. Income from operations in the segment was \$40.4 million in the reported quarter, down 46%. Moreover, adjusted operating ratio deteriorated to 89.1% from 84.4% in the year-earlier period.

Intermodal revenues (excluding fuel surcharge) dipped 3% to \$261.2 million, with revenue per order declining 4%, primarily due to a change in mix related to seasonal project orders. Segmental income from operations decreased 19% to \$32.2 million as a result of higher third-party costs. Additionally, intermodal operating ratio deteriorated to 87.7% in the fourth quarter from the prior year's 85.2%.

Logistics revenues (excluding fuel surcharge) dropped 19% to \$227.8 million, primarily due to a customer in-sourcing activity in the segment's import/export operations. Brokerage accounted for 85.7% of logistics revenues (excluding fuel surcharge) in the quarter compared with 77.9% in the prior year, with brokerage volume expanding 5% year over year.

However, net revenue compression primarily induced a 51% decline in segmental income from operations to \$7.9 million. Further, operating ratio of the segment deteriorated to 96.5% from 95.3% in the fourth quarter of 2018.

2020 EPS View

The company expects full-year adjusted earnings per share between \$1.25 and \$1.35. Meanwhile, the company anticipates net capital expenditures of approximately \$310 million in the year.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-5.58%
EPS Surprise	-5.13%
Quarterly EPS	0.37
Annual EPS (TTM)	1.24

Recent News

New Operating Center in Dallas Area — Feb 26, 2020

Schneider opened a new operating center in Wilmer, TX, to better cater to the needs of drivers. The facility, which will manage more than 500 drivers within Schneider's Regional, Over the Road and Dedicated service offerings, will feature amenities, such as expanded tractor and trailer parking, driver business center, laundry and shower services, Wi-Fi enabled yard etc.

Dividend Increased – Jan 30, 2020

Schneider National's board of directors increased its a quarterly cash dividend to 6.5 cents per share from 6 cents on its Class A and Class B common stock. The amount, expected to be paid on Apr 8, 2020, is payable to its shareholders of record as of Mar 13.

Valuation

Schneider National shares are down 11% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are down 18.4% and 27.4%, respectively. The S&P 500 index is down 11.8% over the past year.

The stock is currently trading at 14.32X forward 12-month price-to earnings, which compares to 16.01X for the Zacks sub-industry, 11.6X for the Zacks sector and 15.48X for the S&P 500 index.

Over the past two years, the stock has traded as high as 30.88X and as low as 10.22X, with a median of 16.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 15.08X 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 F12M	Current	14.32	16.01	11.6	15.48
	2-Year High	30.88	25.39	17.05	19.34
	2-Year Low	10.22	9.18	10.47	15.18
	2-Year Median	16.57	19.93	13.11	17.42
EV/EBITDA TTM	Current	5.45	11.67	6.24	9.4
	2-Year High	16.43	21.68	11.12	12.88
	2-Year Low	4.39	9.64	5.72	8.27
	2-Year Median	6.57	12.75	7.4	10.78
P/S F 12M	Current	0.7	1.19	0.84	2.75
	2-Year High	1.17	2.26	1.41	3.43
	2-Year Low	0.55	0.6	0.84	2.54
	2-Year Median	0.83	1.43	1.21	3

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Services				Industry Peers		
	SNDR Neutral	X Industry	S&P 500	CHRW Underperform	EXPD Underperform	LSTR Underperform
VGM Score	A	-	-	B	C	B
Market Cap	3.37 B	954.79 M	18.21 B	8.56 B	11.25 B	3.83 B
# of Analysts	8	2	13	12	5	10
Dividend Yield	1.37%	0.00%	2.3%	3.13%	1.49%	0.76%
Value Score	B	-	-	C	D	D
Cash/Price	0.19	0.12	0.06	0.05	0.11	0.10
EV/EBITDA	6.05	6.04	11.22	10.93	12.22	10.33
PEG Ratio	1.58	1.53	1.74	1.97	NA	1.51
Price/Book (P/B)	1.50	1.63	2.41	5.28	5.19	5.31
Price/Cash Flow (P/CF)	6.56	5.27	9.70	13.02	17.78	14.07
P/E (F1)	15.47	12.55	15.12	17.69	19.30	18.08
Price/Sales (P/S)	0.71	0.58	1.96	0.56	1.38	0.94
Earnings Yield	6.58%	6.68%	6.55%	5.65%	5.18%	5.53%
Debt/Equity	0.14	0.41	0.70	0.65	0.15	0.10
Cash Flow (\$/share)	2.90	1.95	7.01	5.01	3.77	6.89
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	NA%	12.55%	10.89%	8.43%	12.55%	18.59%
Proj. EPS Growth (F1/F0)	0.51%	2.83%	1.80%	-12.05%	0.58%	-6.22%
Curr. Cash Flow Growth	-9.43%	-1.15%	5.93%	-11.01%	-4.59%	-8.92%
Hist. Cash Flow Growth (3-5 yrs)	7.13%	11.33%	8.55%	5.98%	8.52%	10.35%
Current Ratio	3.02	1.45	1.23	1.70	2.37	1.80
Debt/Capital	12.03%	32.45%	42.57%	39.54%	12.93%	8.87%
Net Margin	3.10%	2.60%	11.64%	3.77%	7.23%	5.58%
Return on Equity	10.03%	9.68%	16.74%	34.67%	27.53%	31.05%
Sales/Assets	1.24	1.27	0.54	3.28	2.23	2.96
Proj. Sales Growth (F1/F0)	-0.94%	2.79%	2.08%	-1.24%	2.76%	-1.69%
Momentum Score	C	-	-	B	C	B
Daily Price Chg	6.98%	0.00%	2.63%	4.29%	2.86%	4.75%
1 Week Price Chg	-1.88%	5.61%	12.32%	-2.19%	18.51%	-0.15%
4 Week Price Chg	3.71%	-22.91%	-18.22%	-6.99%	-6.91%	-7.72%
12 Week Price Chg	-14.49%	-33.15%	-23.36%	-14.80%	-12.83%	-13.88%
52 Week Price Chg	-10.97%	-37.44%	-17.22%	-26.17%	-13.70%	-12.85%
20 Day Average Volume	870,493	169,142	4,211,236	2,711,240	2,574,626	531,013
(F1) EPS Est 1 week change	-1.48%	0.00%	-0.19%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.92%	-4.79%	-3.07%	-0.38%	-0.29%	-1.76%
(F1) EPS Est 12 week change	-8.07%	-8.07%	-4.15%	-15.53%	-7.02%	-11.25%
(Q1) EPS Est Mthly Chg	-6.12%	-1.48%	-2.28%	-0.45%	-1.39%	-0.22%

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	C
VGM Score	A

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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