

United Parcel Service (UPS)

\$91.90 (As of 05/01/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

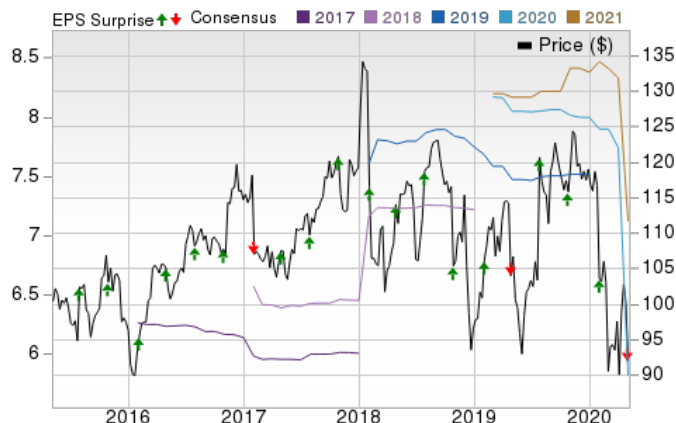
Growth: A

Momentum: C

Summary

UPS reported lower-than-expected earnings per share in first-quarter 2020. Moreover, the bottom line decreased 17.3% year over year. Results were hurt by the coronavirus-induced supply-chain disruptions. Due to the uncertainty over the coronavirus pandemic, the company withdrew its previously-issued 2020 projections for revenues and earnings per share. Moreover, capital expenditures for 2020 are expected to be reduced by roughly \$1 billion from the previous projection. Notably, shares have declined more than 8% since February due to coronavirus-led disruptions. Even though UPS suspended share buybacks for the current year, dividends remain a top priority for the company. In fact, the company has an impressive history with respect to dividend payments. Its robust free cash-flow generation (\$1.6 billion in first-quarter 2020) is an added positive.

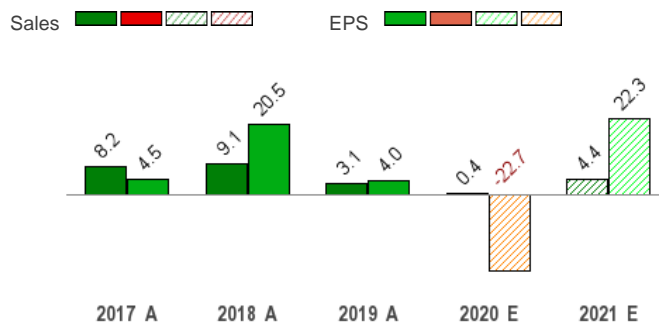
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.31 - \$82.00
20 Day Average Volume (sh)	4,994,147
Market Cap	\$78.9 B
YTD Price Change	-21.5%
Beta	0.82
Dividend / Div Yld	\$4.04 / 4.3%
Industry	Transportation - Air Freight and Cargo
Zacks Industry Rank	Top 30% (77 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.0%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	-23.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	12.6
P/E F1	15.8
PEG F1	1.8
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	18,839 E	19,041 E	19,450 E	22,296 E	77,684 E
2020	18,035 A	17,314 E	17,982 E	20,665 E	74,397 E
2019	17,160 A	18,048 A	18,318 A	20,568 A	74,094 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.95 E	\$2.03 E	\$2.16 E	\$7.12 E
2020	\$1.15 A	\$1.06 E	\$1.42 E	\$1.77 E	\$5.82 E
2019	\$1.39 A	\$1.96 A	\$2.07 A	\$2.11 A	\$7.53 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Based in Atlanta, United Parcel Service is the world's largest express carrier and package delivery company. The company, founded in 1907, provides specialized transportation and logistics services in the United States and internationally.

UPS offers a range of supply chain solutions, such as, freight forwarding, customs brokerage, fulfillment, returns, financial transactions, and repairs. UPS transports millions of packages each business day across the globe. In 2019, the company delivered 21.9 million pieces per day on an average. This translated into 5.5 billion packages in the year.

UPS operates a ground fleet of multiple vehicles in the United States. The company also operates an air fleet of over 500 aircraft. Its primary air hub is in Louisville, KY. Regional air hubs are located in Hartford, CT; Ontario, Canada; Philadelphia, PA, and Rockford, IL. Its international air hub is in Cologne, Germany, while other hubs are located in Miami, FL; Canada; Hong Kong; Singapore; Taiwan; China, and the Philippines.

The company, which expects total operating profits in 2020 to grow in mid to high-single-digits, has the following three core business segments:

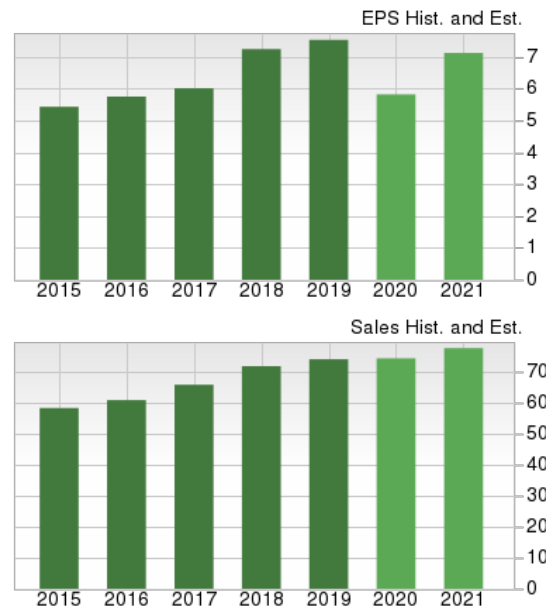
The **U.S. domestic package** operations (accounted for 62.7% of 2019 revenues) involve ground delivery services, deferred air delivery, and next day air services. Segmental revenues are expected to grow between 4% and 7% in 2020.

The **International package** operations (19.2%) encompass delivery of letters, documents and packages to multiple countries and territories worldwide, including shipments outside the U.S. as well as shipments from or to the United States with another country as the destination or origin point. Segmental revenues are expected to increase between 4% and 6% in 2020.

The **Supply chain and freight** segment (18.1%) is engaged in logistics, excess value package insurance, and freight and ancillary services. The segment, which includes the forwarding, logistics, truckload brokerage, UPS Freight and UPS Capital businesses, is expected to witness revenue-growth in the 4-6% band in 2020..

The U.S. Domestic Package and International Package businesses are collectively referred to as the company's global small package operations.

UPS' fiscal year coincides with its fiscal year.



Reasons To Buy:

▲ We are encouraged by UPS' solid free cash flow. UPS' free cash flow in 2018 surged to \$6.13 billion, exceeding its expectation. In 2019, UPS generated adjusted free cash flow in excess of \$4.1 billion. Cash from operations were \$8.6 billion. Even in the coronavirus hit first-quarter 2020, UPS generated impressive free cash flow. Robust free cash-flow generation by UPS is a major positive and might lead to an uptick in shareholder-friendly activities.

▲ UPS' primary revenue-generating segment, U.S. Domestic, has been performing well for the past few quarters. Segmental revenues increased 6.6% year over year to \$13,408 million in fourth-quarter 2019, aided by more than 8% volume growth across all products. Additionally, unit costs (on an adjusted basis) declined 3.2%, leading to positive operating leverage. In the first quarter, U.S. Domestic Package revenues increased 9.3% year over year to \$11,456 million, driven by 8.5% volume growth across all products. Notably, UPS Next Day Air volumes were up 20.5%. This uptrend was attributable to gains pertaining to automated hubs and other transformation investments.

▲ Despite coronavirus-related headwinds, the International Package segment performed reasonably well in first-quarter 2020, with revenues down a mere 2%. In fact, International cost per piece dipped 0.5%, mainly owing to currency-related impact. Notably, since mid-March the market in China began its recovery. Notably, export volume for March from Asia was up around 15% on a local day basis. Further improvement in export volume from China bodes well for the segment. This, in turn, should aid the top line.

Strong performance of the U.S. Domestic segment is a huge positive.

Reasons To Sell:

- ▼ The sluggish air freight market due to lackluster demand from China is a negative as UPS as it has Chinese exposure. For instance, UPS joined forces with SF Holding in 2017 to strengthen its footprint in the Chinese market. With the phase one trade deal signed in January, trade tensions between the United States and China might ease. However, volumes are likely to remain weak unless the issue is fully resolved. The coronavirus pandemic is a further setback for the already-struggling air-freight market
- ▼ UPS is a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization reads 0.88. This compares unfavorably to the figure of 0.69 for its industry. Additionally, UPS' debt equity ratio currently exceeds 1. A high debt equity ratio implies that the company is funding most of its ventures with debt. At the end of 2019, UPS had cash and marketable securities of \$5.74 billion and long-term debt of \$21.82 billion.
- ▼ Due to the uncertainty over the coronavirus pandemic, the company withdrew its previously-issued 2020 projections for revenues and earnings per share. Moreover, capital expenditures for 2020 are expected to be reduced by roughly \$1 billion from the previous projection. Reduced capital expenditures might dent its long-term growth prospects. Notably, shares have declined more than 8% since February due to coronavirus-led disruptions.

Increased capital expenditures are limiting bottom-line growth at UPS. Notably, 2020 capex is expected to be higher than 2019 levels.

Last Earnings Report

Earnings Miss at UPS in Q1

UPS' first-quarter 2020 earnings (excluding 4 cents from non-recurring items) per share of \$1.15 lagged the Zacks Consensus Estimate by 6 cents. The bottom line also decreased 17.3% year over year. Results were hurt by the coronavirus-induced supply-chain disruptions.

Due to the uncertainty over the coronavirus pandemic, UPS withdrew its previously-issued 2020 projections for revenues and earnings per share. With dividends remaining a top priority for the company, it is suspending share buybacks for the current year. Moreover, capital expenditures for 2020 are expected to be reduced by roughly \$1 billion from the previous projection.

However, performance on the top-line front was encouraging despite the coronavirus woes. UPS generated revenues worth \$18,035 million in the quarter, surpassing the Zacks Consensus Estimate of \$17,420.3 million. Moreover, the top line improved 5.1% on a year-over-year basis. Results were aided by higher average daily volumes. However, operating profit decreased 26.4% on an adjusted basis in the first quarter due to the domestic package segment's disappointing operating profit.

Segmental Details

U.S. Domestic Package revenues increased 9.3% year over year to \$11,456 million in the first quarter, driven by 8.5% volume growth across all products. Notably, UPS Next Day Air volumes were up 20.5%. This uptrend was attributable to gains pertaining to automated hubs and other transformation investments. Segmental operating profit plunged more than 40% on an adjusted basis to \$401 million in the quarter.

Revenues at the International Package division came in at \$3,383 million, down 2%. International cost per piece dipped 0.5%, mainly owing to currency-related impact. Segmental operating profit came in at \$558 million in the reported quarter on an adjusted basis, reflecting an 8.8% decrease.

Supply Chain and Freight revenues fell marginally to \$3,196 million. Operating profits in the segment dropped 25.1% on an adjusted basis to \$158 million in the first quarter. Results were hurt by the sluggishness in economic activity due to the pandemic.

Other Details

Cash from operations were \$2.6 billion at the end of the reported quarter. UPS generated free cash flow of \$1.6 billion on an adjusted basis in the same period. The company's capital expenditures (adjusted) were \$939 million in the quarter.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	3.53%
EPS Surprise	-4.96%
Quarterly EPS	1.15
Annual EPS (TTM)	7.29

Recent News

New CEO Chosen - Mar 12, 2020

UPS has chosen Carol Tome to succeed David Abney as the new CEO, effective Jun 1. Tomé has been a member of the UPS board since 2003 and currently serves as the chairperson of the Audit Committee.

Valuation

UPS shares have been down 19.1% and 9.5% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 16.8% and 16% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 22.3% and 22.9% year to date and in the past year, respectively.

The S&P 500 Index has lost 8.9% year to date. The index is up 0.5% in the past 12 months.

The stock is currently trading at 13.51X forward 12-month price to earnings which compares to 14.11X for the Zacks sub-industry, 25.8X for the Zacks sector and 20.8X for the S&P 500 index.

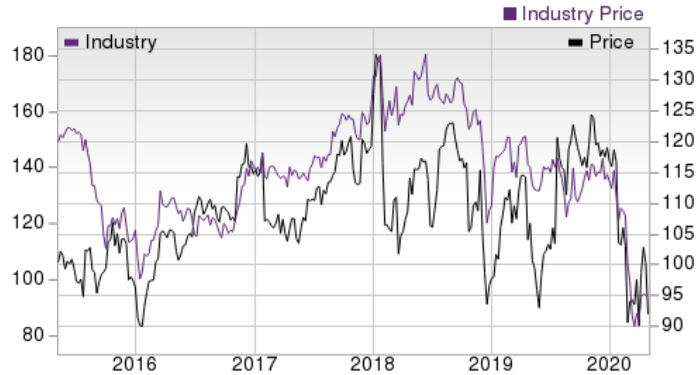
Over the past five years, the stock has traded as high as 21.17X and as low as 10.79X, with a 5-year median of 17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 14.27X forward 12-month earnings.

The table below shows summary valuation data for UPS

Valuation Multiples - UPS					
		Stock	Sub-Industry	Sector	S&P 500
P/EF12M	Current	13.51	14.11	25.8	20.8
	5-Year High	21.17	17.89	25.8	20.8
	5-Year Low	10.79	10.96	10.48	15.19
	5-Year Median	17	15.16	13.17	18.9
EV/EBITDA TTM	Current	4.03	3.69	6.43	10.52
	5-Year High	6.9	7.03	11.16	12.87
	5-Year Low	3.06	3.4	5.61	8.28
	5-Year Median	5.4	5.98	7.38	10.78
P/S F12M	Current	0.52	0.5	1.05	4.81
	5-Year High	1	1.5	1.42	4.81
	5-Year Low	0.33	0.84	0.85	2.54
	5-Year Median	0.82	1.21	1.21	3.01

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Atlas Air Worldwide Holdings (AAWW)	Neutral	2
Amazon.com, Inc. (AMZN)	Neutral	3
C.H. Robinson Worldwide, Inc. (CHRW)	Neutral	4
CSX Corporation (CSX)	Neutral	3
FedEx Corporation (FDX)	Neutral	4
Radiant Logistics, Inc. (RLGT)	Neutral	NA
Union Pacific Corporation (UNP)	Neutral	3
XPO Logistics, Inc. (XPO)	Neutral	3

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	UPS	X Industry	S&P 500	CHRW	FDX	XPO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	3
VGM Score	A	-	-	B	A	A
Market Cap	78.89 B	858.26 M	20.61 B	9.30 B	30.88 B	5.86 B
# of Analysts	12	2	14	11	12	12
Dividend Yield	4.40%	0.00%	2.11%	2.88%	2.20%	0.00%
Value Score	B	-	-	C	A	A
Cash/Price	0.07	0.07	0.06	0.05	0.05	0.06
EV/EBITDA	11.51	6.18	11.87	11.82	13.61	7.94
PEG Ratio	1.82	1.66	2.47	2.62	1.06	1.36
Price/Book (P/B)	23.98	1.69	2.67	5.73	1.64	2.08
Price/Cash Flow (P/CF)	9.11	3.94	10.66	14.16	4.42	5.10
P/E (F1)	15.79	13.37	19.01	23.62	12.78	16.85
Price/Sales (P/S)	1.05	0.31	2.10	0.61	0.44	0.35
Earnings Yield	6.33%	7.30%	5.05%	4.24%	7.83%	5.94%
Debt/Equity	7.37	1.66	0.72	0.65	1.66	2.44
Cash Flow (\$/share)	10.39	6.69	7.01	5.01	28.66	13.08
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	9.22%	10.50%	10.88%	8.43%	11.78%	66.94%
Proj. EPS Growth (F1/F0)	-22.73%	-20.90%	-7.32%	-28.42%	-40.39%	-5.25%
Curr. Cash Flow Growth	4.64%	4.64%	5.92%	-11.01%	-2.30%	2.29%
Hist. Cash Flow Growth (3-5 yrs)	7.12%	19.15%	8.55%	5.98%	9.78%	79.21%
Current Ratio	1.11	1.11	1.23	1.70	1.21	1.03
Debt/Capital	88.06%	70.51%	43.84%	39.54%	62.37%	70.61%
Net Margin	5.73%	1.63%	11.08%	3.21%	-0.50%	2.44%
Return on Equity	143.20%	17.05%	16.44%	29.58%	17.05%	15.91%
Sales/Assets	1.37	1.06	0.54	3.30	1.06	1.18
Proj. Sales Growth (F1/F0)	0.33%	0.17%	-1.42%	-5.01%	-0.97%	-3.96%
Momentum Score	C	-	-	B	A	F
Daily Price Chg	-1.51%	-3.85%	-2.39%	-0.51%	-2.09%	-3.39%
1 Week Price Chg	-2.50%	-1.64%	-1.74%	-2.63%	-1.43%	11.94%
4 Week Price Chg	1.74%	11.70%	17.07%	2.87%	8.68%	42.42%
12 Week Price Chg	-11.13%	-14.23%	-18.53%	-3.64%	-14.71%	-28.41%
52 Week Price Chg	-10.28%	-32.22%	-9.82%	-15.01%	-32.22%	4.12%
20 Day Average Volume	4,994,147	688,000	2,641,413	1,887,184	2,656,612	1,996,662
(F1) EPS Est 1 week change	-9.62%	0.00%	0.00%	-2.06%	0.00%	-0.43%
(F1) EPS Est 4 week change	-23.13%	-1.06%	-6.62%	-9.70%	-3.75%	-18.27%
(F1) EPS Est 12 week change	-24.97%	-14.65%	-13.28%	-14.64%	-14.65%	-17.62%
(Q1) EPS Est Mthly Chg	-44.13%	0.00%	-11.97%	-11.30%	-5.15%	-31.73%

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	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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.