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Aug 05, 2020

United Parcel Service (UPS)

$144.72 (As of 08/04/20)

Price Target (6-12 Months): **$166.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/04/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B	Momentum: B

Summary

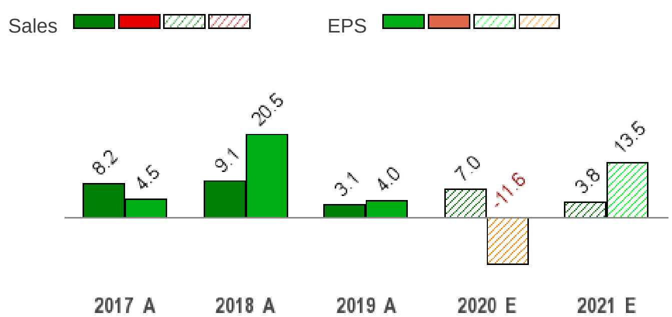
UPS delivered better-than-expected revenues as well as earnings per share for second-quarter 2020. Moreover, both the top and the bottom line improved year over year owing to a significant increase in home deliveries amid the prevalent coronavirus pandemic. Demand for residential delivery soared, leading to a 65.2% jump in business-to-consumer shipments. Notably, the need for door-to-door delivery of essentials during this crisis is rising. Moreover, adjusted free cash flow generation of $3.9 billion in first-half 2020 was up 77.2% year over year. The fact that the Zacks Consensus Estimate for current-year earnings has been revised 13.9% upward over the past 30 days reflects the positivity surrounding the stock. We are, however, concerned about the second-quarter decline in operating profit at the Supply Chain & Freight segment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$145.94 - $82.00**
20 Day Average Volume (sh)	**4,839,230**
Market Cap	**$124.8 B**
YTD Price Change	**23.6%**
Beta	**0.94**
Dividend / Div Yld	**$4.04 / 2.8%**
Industry	**Transportation - Air Freight and Cargo**
Zacks Industry Rank	**Top 10% (26 out of 254)**
Last EPS Surprise	**104.8%**
Last Sales Surprise	**18.0%**
EPS F1 Est- 4 week change	**20.0%**
Expected Report Date	**10/27/2020**
Earnings ESP	**0.7%**
P/E TTM	**19.4**
P/E F1	**21.7**
PEG F1	**2.5**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	18,628 E	20,509 E	20,307 E	22,462 E	82,280 E
2020	18,035 A	20,459 A	19,560 E	21,602 E	79,306 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	$1.45 E	$2.07 E	$2.06 E	$2.15 E	$7.56 E
2020	$1.15 A	$2.13 A	$1.73 E	$1.82 E	$6.66 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 08/04/2020. The reports text is as of 08/05/2020.

Overview

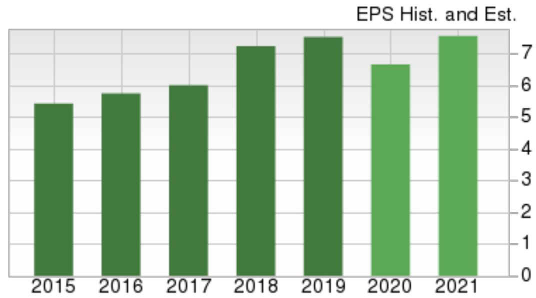
Based in Atlanta, United Parcel Service is the world's largest express carrier and package delivery company. The company, founded in 1907, provides specialized transportation and logistics services in the United States and internationally.

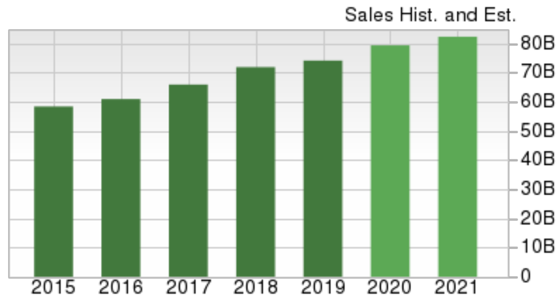
UPS offers a range of supply chain solutions, such as, freight forwarding, customs brokerage, fulfillment, returns, financial transactions, and repairs. UPS transports millions of packages each business day across the globe. In 2019, the company delivered 21.9 million pieces per day on an average. This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

> The increase in e-commerce sales during the coronavirus pandemic is a huge positive for UPS.

▲ 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 this coronavirus- hit scenario, UPS generated impressive free cash flow so far tthis year. Robust free cash-flow generation by UPS is a major positive and might lead to an uptick in shareholder-friendly activities. Notably, UPS paid dividends worth $1.8 billion in first-half 2020, up 5.2% year over year. Moreover, UPS exited the June quarter with cash and equivalents of $9,216 million, above its current debt figure. This suggests that it has enough cash to meet its current debt obligations.

▲ The increase in e-commerce sales during the coronavirus pandemic is a huge positive for UPS. E-commerce, which already became part and parcel of daily lives in today's fast-paced world, is witnessing higher demand now amid the pandemic-induced social-distancing protocols, quarantine and lockdowns. Owing to the surge in residential and healthcare shipments UPS outperformed in second-quarter 2020. Demand for air freight forwarding from Asia was also strong in the June quarter.

▲ UPS Airlines, one of the largest cargo carriers across the globe, is aided by the increase in e-commerce sales amid the plaguing pandemic. In fact, UPS Airlines even expanded its fleet by adding MD-11 and Boeing 747-8 freighter jets. With many passenger airlines (usually carrying freight as well as passenger luggage) currently shrinking their fleets due to tepid air-travel demand, cargo carriers like UPS Airlines are making hay and flying a lot of packages. To meet the swell in e-commerce demand and also to cater to the solid requirement for flying cargos, such carriers are extending their fleet.

Risks

- We are concerned about the decline in overall adjusted profit at UPS in first-half 2020. Notably, the metric declined 6.5% due to the double digit decline at the Supply Chain & Freight (down 12.2%) and U.S. domestic Package (down 15.8%) units. The downside was mainly due to coronavirus-induced supply chain disruptions. Moreover, UPS expects U.S. Domestic average daily volume growth to be lower in second-half 2020, from the 22.8% witnessed in the June quarter. Also, Asia outbound demand and yields are also anticipated to be moderate compared with the June quarter.

- Due to the uncertainty over the coronavirus pandemic, the company did not provide 2020 projections for revenues and earnings per share. Moreover, capital expenditures ($2.1 billion in first-half 2020) are expected to be $5.6 for 2020, lower than the $6.4 billion achieved in 2019. Reduced capital expenditures might dent its long-term growth prospects.

- Due to the coronavirus-induced weakness in the industrial sector, business to business volume declined 21.9% (1.8 million pieces per day) year over year in the June quarter. With cases spiking amid fears of a second wave of the virus, weakness in the industrial sector is likely to prevail throughout the year. This will hurt UPS significantly.

Last Earnings Report

Earnings Beat at UPS in Q2

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	17.96%
EPS Surprise	104.81%
Quarterly EPS	2.13
Annual EPS (TTM)	7.46

The company's earnings (excluding 10 cents from non-recurring items) per share of $2.13 surpassed the Zacks Consensus Estimate of $1.04. The bottom line also improved 8.7% year over year. Results were aided by expanded residential delivery volumes, thanks to coronavirus confining people to their homes, increase in healthcare shipments and strong outbound demand from Asia. UPS generated revenues worth $20,459 million in the quarter, outperforming the Zacks Consensus Estimate of $17,344.4 million. Moreover, the top line improved 13.4% on a year-over-year basis. Results were aided by 20.9% growth in average daily volumes. Also, operating profit climbed 7.4% on an adjusted basis in the second quarter towing to a robust rise inInternational Package segment's operating profit.

Segmental Details

U.S. Domestic Package revenues ascended 17.3% year over year to $13,074 million in the second quarter, driven by a 22.8% rise in average daily volumes. Demand for residential delivery soared, leading to a 65.2% jump in business-to-consumer shipments. Segmental operating profit (adjusted) dipped marginally to $1,215 million in the quarter. Revenues at the International Package division came in at $3,705 million, up 5.7%. Average daily volumes rose 9.8% owing to strong outbound demand from Asia and increased cross-border e-commerce in Europe.Segmental operating profit (adjusted) totaled $842 million in the reported quarter, up 26.6%.

Supply Chain and Freight revenues climbed 8.5% to $3,680 million owing to higher demand for air freight forwarding from Asia. Operating profits (on an adjusted basis), however, dipped 2.2% to $158 million in the second quarter.

Other Details

Cash from operations were $5.9 billion. UPS, generated free cash flow of $3.9 billion on an adjusted basis in the first six months of 2020. The company'scapital expenditures (adjusted) were $2,098 million.

Recent News

Update on Partnership with Yotpo — Jul 9, 2020

UPS has teamed up with Yotpo, a leading eCommerce marketing platform, in a bid to enable small and medium businesses gain access to advanced solutions for ratings and reviews, visual user-generated content marketing and customer insights.

Valuation

UPS shares have gained 23.6% year to date and 25.8% over the past year. Stocks in the Zacks sub-industry have increased 26.2% in a year's time and 26.8% year to date. Stocks in the Zacks Transportation sector have declined 7% year to date and 0.9% in the past year, respectively. The S&P 500 index is up 2.3% in the year-to-date period and 14.6% in the past year.

The stock is currently trading at 19.4X trailing 12-month price to earnings which compares to 19.31X for the Zacks sub-industry, 17.21X for the Zacks sector and 23.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.27X and as low as 11.44X, with a 5-year median of 18.16X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $166 price target reflects 22.25X trailing12-month earnings.

The table below shows summary valuation data for UPS

Valuation Multiples - UPS

		Stock	Sub-Industry	Sector	S&P 500
P/ETTM	Current	19.4	19.31	17.21	23.3
	5-Year High	22.27	20.85	19.57	23.3
	5-Year Low	11.44	11.51	11.63	15.98
	5-Year Median	18.16	17.32	15.58	19.2
EV/EBITDA TTM	Current	11.94	10.94	7.81	12.76
	5-Year High	13.33	12.98	11.22	12.85
	5-Year Low	7.85	6.76	5.47	8.24
	5-Year Median	10.33	9.44	7.39	10.89
P/S F 12M	Current	1.64	1.24	1.32	3.6
	5-Year High	1.68	1.5	1.42	3.6
	5-Year Low	0.95	0.84	0.85	2.53
	5-Year Median	1.39	1.19	1.2	3.04

As of 08/04/2020

Industry Analysis **Zacks Industry Rank:** Top 10% (26 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Atlas Air Worldwide Holdings **(AAWW)**	Outperform	2
Amazon.com, Inc. **(AMZN)**	Neutral	3
C.H. Robinson Worldwide, Inc. **(CHRW)**	Neutral	1
CSX Corporation **(CSX)**	Neutral	3
Expeditors International of Washington, Inc. **(EXPD)**	Neutral	3
FedEx Corporation **(FDX)**	Neutral	3
Union Pacific Corporation **(UNP)**	Neutral	3
XPO Logistics, Inc. **(XPO)**	Neutral	3

Industry Comparison Industry: Transportation - Air Freight And Cargo

	UPS	X Industry	S&P 500	Industry Peers CHRW	FDX	XPO
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	1	3	3
VGM Score	B	-	-	B	B	A
Market Cap	124.77 B	1.49 B	22.75 B	12.87 B	44.71 B	7.10 B
# of Analysts	12	3	14	11	13	12
Dividend Yield	2.79%	0.00%	1.76%	2.14%	1.52%	0.00%
Value Score	C	-	-	B	A	A
Cash/Price	0.07	0.09	0.07	0.03	0.11	0.33
EV/EBITDA	16.30	6.86	13.09	16.14	11.57	8.48
PEG Ratio	2.50	2.11	2.95	3.12	1.42	8.89
Price/Book (P/B)	28.51	2.06	3.16	7.55	2.44	2.74
Price/Cash Flow (P/CF)	13.92	6.02	12.32	19.06	6.81	5.94
P/E (F1)	21.73	17.31	21.81	28.12	17.02	82.97
Price/Sales (P/S)	1.61	0.60	2.46	0.85	0.65	0.45
Earnings Yield	4.60%	5.79%	4.40%	3.55%	5.88%	1.21%
Debt/Equity	5.86	1.87	0.76	0.64	1.87	3.36
Cash Flow ($/share)	10.39	6.69	6.94	5.01	25.05	13.08
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	8.47%	8.10%	10.46%	4.99%	7.73%	48.35%
Proj. EPS Growth (F1/F0)	-11.50%	11.06%	-7.16%	-18.99%	5.56%	-76.76%
Curr. Cash Flow Growth	4.64%	-3.18%	5.47%	-11.01%	-12.37%	2.29%
Hist. Cash Flow Growth (3-5 yrs)	7.12%	9.73%	8.55%	5.98%	4.77%	79.21%
Current Ratio	1.24	1.24	1.32	1.56	1.58	1.51
Debt/Capital	85.43%	69.39%	44.36%	39.07%	65.11%	76.78%
Net Margin	5.66%	1.86%	10.25%	3.10%	1.86%	0.82%
Return on Equity	156.85%	16.04%	14.67%	28.22%	13.49%	9.11%
Sales/Assets	1.32	0.98	0.51	3.18	0.98	1.08
Proj. Sales Growth (F1/F0)	7.03%	4.48%	-1.71%	-1.90%	2.47%	-8.86%
Momentum Score	B	-	-	D	F	B
Daily Price Chg	1.79%	1.69%	0.42%	2.05%	0.85%	1.93%
1 Week Price Chg	20.63%	4.82%	0.14%	8.89%	2.04%	-5.34%
4 Week Price Chg	26.45%	9.43%	4.97%	19.03%	7.64%	-0.59%
12 Week Price Chg	55.86%	38.24%	15.30%	31.27%	50.84%	19.81%
52 Week Price Chg	25.84%	13.52%	2.34%	17.37%	5.88%	14.06%
20 Day Average Volume	4,839,230	400,434	2,082,836	1,758,669	2,351,620	1,449,953
(F1) EPS Est 1 week change	20.67%	0.00%	0.00%	18.73%	0.00%	0.27%
(F1) EPS Est 4 week change	19.99%	0.00%	0.93%	21.00%	0.00%	-17.17%
(F1) EPS Est 12 week change	18.46%	10.74%	0.78%	16.36%	-0.31%	-63.36%
(Q1) EPS Est Mthly Chg	20.33%	0.00%	0.17%	16.67%	0.00%	-10.75%

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	C
Growth Score	B
Momentum Score	B
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.

Disclosures

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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.