

## United Parcel Service (UPS)

**\$116.72** (As of 01/03/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 02/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

### Summary

Akin to the past few quarters, UPS' fourth-quarter 2019 performance is likely to have been boosted by robust e-commerce growth. UPS anticipates cross-border e-commerce volume growth of 28% during the 2019-2021 period. We are also impressed with the company's efforts to reward its shareholders. Evidently, the company paid out more than \$2.5 billion as dividend to its shareholders in the first nine months of 2019, up 5.5% year over year. UPS is also active on the buyback front. We are also encouraged by its solid free cash flow. Partly owing to these tailwinds, shares of the company have outperformed its industry in a year's time. However, UPS' high capital expenditures might play spoilsport. Additionally, trade-related uncertainty with China impedes its growth potential. The company's high debts add to its woes.

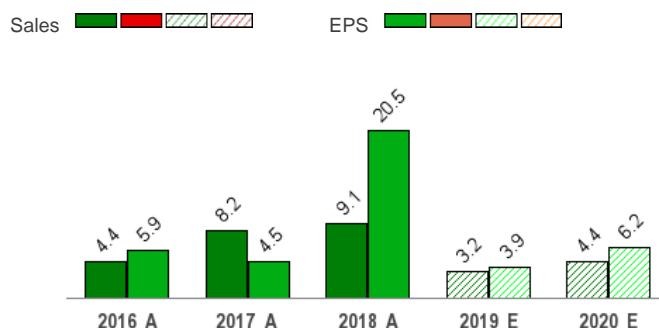
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$125.31 - \$92.65
20 Day Average Volume (sh)	2,688,068
Market Cap	\$100.1 B
YTD Price Change	-0.3%
Beta	1.21
Dividend / Div Yld	\$3.84 / 3.3%
Industry	<a href="#">Transportation - Air Freight and Cargo</a>
Zacks Industry Rank	Bottom 23% (194 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.5%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	01/30/2020
Earnings ESP	-0.6%
P/E TTM	15.9
P/E F1	14.6
PEG F1	1.7
P/S TTM	1.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	17,979 E	18,686 E	19,191 E	21,427 E	77,422 E
2019	17,160 A	18,048 A	18,318 A	20,578 E	74,131 E
2018	17,113 A	17,456 A	17,444 A	19,848 A	71,861 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.57 E	\$2.10 E	\$2.12 E	\$2.23 E	\$7.99 E
2019	\$1.39 A	\$1.96 A	\$2.07 A	\$2.10 E	\$7.52 E
2018	\$1.55 A	\$1.94 A	\$1.82 A	\$1.94 A	\$7.24 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 01/03/2020. The reports text is as of 01/06/2020.

## 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 2018, the company delivered 20.7 million pieces per day on an average. This translated into 5.2 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 2019 to grow in low-teens, has the following three core business segments:

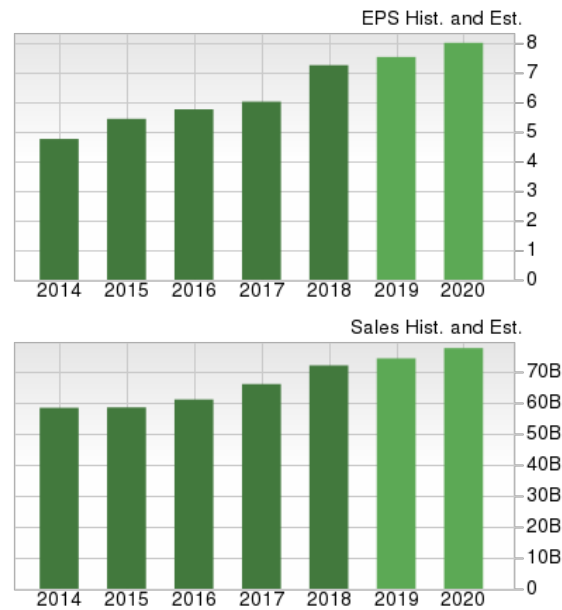
The **U.S. domestic package** operations (accounted for 60.6% of 2018 revenues) involve ground delivery services, deferred air delivery, and next day air services. Segmental revenues are expected to grow between 4% and 6% in 2019.

The **International package** operations (20.1%) 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 5% and 7% in 2019.

The **Supply chain and freight** segment (19.2%) 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 continue its efforts pertaining to disciplined strategies.

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.



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## Reasons To Buy:

▲ E-commerce growth is a huge positive at UPS, which has been aiding results for the last few quarters. The trend is likely to continue as UPS anticipates cross-border e-commerce volume growth by 28% during the 2019-2021 period. Moreover, the deal with e-commerce firm Inception inked in March 2019, is aimed at simplifying business to business (B2B) logistics. B2B e-commerce is a fast-evolving market, expected to reach \$1.8 trillion by 2023, per market research firm Forrester. Furthermore, the company's decision, announced in October 2019, to purchase in excess of 6,000 natural gas-powered trucks over a three year period (2020-2022) is an added positive

Solid e-commerce growth is a huge positive for the company. We are also impressed with the company's efforts to reward investors.

▲ We are impressed with the company's efforts to reward investors. In 2018, UPS rewarded its shareholders to the tune of \$4.2 billion through dividends (\$3.2 billion) and buybacks (\$1 billion). Continuing with its shareholder-friendly approach, in February 2019, UPS hiked its quarterly dividend by 5.5% to 96 cents per share. The company paid out more than \$2.5 billion as dividend to its shareholders in the first nine months of 2019. This reflects an increase of 5.5% year over year. Notably, UPS has an impressive history with respect to dividend payments. For nearly five decades the company has either increased or maintained its dividend. UPS is also active on the buyback front. Evidently, it bought back 7 million shares for \$753 million in the first nine months of the year.

▲ We are encouraged by UPS' solid free cash flow. UPS' free cash flow in 2018 surged to \$6.13 billion, exceeding its expectation. In the first nine months of 2019, UPS generated adjusted free cash flow of around \$3.2 billion. Cash from operations were \$5.7 billion. Robust free cash flow generation by UPS supports the possibility of a further dividend hike. Moreover, the company expects 2019 adjusted earnings per share between \$7.45 and \$7.75, higher than \$7.24 achieved in 2018. Additionally, UPS has left no stone unturned to succeed in the current holiday season. It has hired roughly 100,000 seasonal workers during the season (November 2019 to January 2020) to meet this buoyant demand.

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## Reasons To Sell:

- ▼ The company made significant investments in upgrading its facilities to meet the surge in demand following rapid growth in e-commerce. UPS spent \$6.6 billion as capital expenditures (adjusted) in 2018, bulk of which was directed toward new technology, aircraft and automated capacity. This reflects a massive increase from 2016 levels when the company spent nearly \$3 billion on capital expenditures. In the first nine months of 2019, the company made capital investments worth approximately \$4.5 billion. The company's high capital expenditures are limiting bottom-line growth.
- ▼ Trade-related deadlock with China is a downside as UPS has Chinese exposure. For instance, UPS joined forces with SF Holding in 2017 to strengthen its footprint in the Chinese market. Notably, revenues at UPS' Supply Chain and Freight division decreased 4.5% in third-quarter 2019 due to trade-related sluggishness. Moreover, competition is likely to intensify for UPS with Amazon looking to expand its logistics network. This does not bode well for UPS.
- ▼ UPS is a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization (expressed as a percentage) currently reads 81. This compares unfavorably to the figure of 68.2 for its industry. Additionally, UPS' debt equity ratio (expressed as a percentage) currently exceeds 100. A high debt equity ratio implies that the company is funding most of its ventures with debt.

Increased capital expenditures are limiting bottom-line growth at UPS. Trade-related uncertainty with China might hurt the stock as UPS has Chinese exposure.

## Last Earnings Report

### Earnings Beat at UPS in Q3

UPS' third-quarter 2019 earnings (excluding 6 cents from non-recurring items) of \$2.07 per share surpassed the Zacks Consensus Estimate by a penny. The bottom line also increased 13.7% year over year, courtesy of an impressive performance by the U.S. Domestic Package segment. The company's transformation initiatives also aided results.

UPS generated revenues of \$18,318 million in the quarter, which edged past the Zacks Consensus Estimate of \$18,303.3 million. Moreover, the top line improved 5% on a year-over-year basis. Results were backed by higher domestic average daily volumes.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	<b>0.08%</b>
EPS Surprise	<b>0.49%</b>
Quarterly EPS	<b>2.07</b>
Annual EPS (TTM)	<b>7.36</b>

### Segmental Details

U.S. Domestic Package revenues climbed 9.8% year over year to \$11,455 million in the third quarter, driven by more than 9% volume growth across all products. The greatest increase (up nearly 24%) was in UPS Next Day Air volume. Results were aided by higher demand for air services, primarily from customers in the healthcare, retail and high-tech sectors. Segmental operating profit improved approximately 26% on an adjusted basis to \$1,216 million in the quarter, mainly owing to the sharp increase in demand for the company's next-day services. Additionally, unit costs (on an adjusted basis) declined 2.5%, leading to positive operating leverage.

Revenues at the International Package division came in at \$3,494 million, up 0.5%. The international segment benefited from export volume growth on intra-European trade lanes. Domestic revenue per piece declined slightly. However, the measure inched up 2.3% on a currency-adjusted basis. Segmental operating profit came in at \$693 million in the reported quarter on an adjusted basis, reflecting an increase of 20.3%.

Supply Chain and Freight revenues decreased 4.5% to \$3,369 million due to trade-related sluggishness. Driven by its focus on small and medium-sized businesses, the UPS Freight unit registered an approximate 4% increase in revenue per LTL (less-than-truckload) hundredweight in the reported quarter. Operating profits in the segment slipped 1.5% on an adjusted basis to \$256 million in the third quarter.

### Other Details

Cash from operations were \$5.7 billion at the end of the third quarter. UPS generated free cash flow of nearly \$3.2 billion on an adjusted basis in the same period. The company spent \$4.5 billion as capital expenditures in the first nine months of the year. We are also impressed with the company's efforts to reward shareholders consistently through buybacks and dividend payouts. On a year-to-date basis, dividend per share increased 5.5%. Moreover, the company repurchased 7 million shares for roughly \$753 million.

### Outlook

UPS still expects 2019 adjusted earnings per share between \$7.45 and \$7.75. Tax rate in 2019 is anticipated between 22% and 23% (past view: 22-24%). Adjusted free cash flow for 2019 is estimated to be more than \$4 billion (previously: \$3.5-\$4 billion). The company slashed capital expenditures by \$500 million for 2019 as well as 2020.

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## Recent News

### Update on National Returns Day — Dec 26, 2019

UPS anticipates to receive a record 1.9 million returns packages into its network on Jan 2, the National Returns Day, on the back of significant rise in online shopping during the holiday season. The figure representing a 26% increase from that recorded a year ago will create a record for the seventh consecutive year.

### Dividend Update — Nov 7, 2019

UPS' board of directors declared a quarterly dividend of 96 cents per share on its common stock. The amount will be paid on Dec 4, 2019, to its shareholders of record on Nov 18, 2019.

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## Valuation

UPS shares are up 19.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 9.7% and 15.8%, respectively, in a year's time. The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 14.59X forward 12-month price-to-earnings, which compares to 13.95X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.17X and as low as 11.62X, with a 5-year median of 17.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 15.5X forward 12-month earnings.

The table below shows summary valuation data for UPS

Valuation Multiples - UPS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.59	13.95	13.01	18.71
	5-Year High	21.17	18.07	16.98	19.34
	5-Year Low	11.62	10.96	10.46	15.16
	5-Year Median	17.39	15.65	13.1	17.44
EV/EBITDA TTM	Current	6.43	9.19	7.89	11.99
	5-Year High	13.33	12.98	11.1	12.86
	5-Year Low	8.86	8.19	5.98	8.48
	5-Year Median	10.53	9.61	7.43	10.67
P/S F12M	Current	1.29	1.06	1.13	3.47
	5-Year High	1.68	1.5	1.44	3.47
	5-Year Low	1.02	0.92	1.03	2.54
	5-Year Median	1.43	1.24	1.24	3

As of 01/03/2020

## Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 252)



## Top Peers

Amazon.com, Inc. (AMZN)	Neutral
CSX Corporation (CSX)	Neutral
Radiant Logistics, Inc. (RLGT)	Neutral
Union Pacific Corporation (UNP)	Neutral
XPO Logistics, Inc. (XPO)	Neutral
Atlas Air Worldwide Holdings (AAWW)	Underperform
C.H. Robinson Worldwide, Inc. (CHRW)	Underperform
FedEx Corporation (FDX)	Underperform

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	UPS Neutral	X Industry	S&P 500	CHRW Underperform	FDX Underperform	XPO Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Market Cap	100.12 B	710.16 M	23.66 B	10.51 B	40.00 B	7.22 B
# of Analysts	12	2	13	10	10	11
Dividend Yield	3.29%	0.00%	1.79%	2.62%	1.70%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Cash/Price	0.04	0.05	0.04	0.04	0.05	0.06
EV/EBITDA	13.52	7.83	13.88	11.65	15.03	9.09
PEG Ratio	1.68	1.42	1.99	1.98	1.17	0.54
Price/Book (P/B)	17.97	2.19	3.36	6.29	2.14	2.47
Price/Cash Flow (P/CF)	11.77	5.34	13.62	14.04	5.34	8.42
P/E (F1)	14.61	12.40	18.74	17.82	13.98	16.56
Price/Sales (P/S)	1.36	0.32	2.67	0.67	0.58	0.43
Earnings Yield	6.85%	8.20%	5.32%	5.61%	7.15%	6.03%
Debt/Equity	4.27	1.67	0.72	0.75	1.67	2.32
Cash Flow (\$/share)	9.92	6.07	6.94	5.54	28.66	9.30
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	9.33%	12.02%	10.56%	9.22%	14.41%	71.33%
Proj. EPS Growth (F1/F0)	6.35%	6.24%	7.41%	-2.01%	-29.41%	18.32%
Curr. Cash Flow Growth	12.82%	26.87%	14.83%	29.95%	-2.30%	30.17%
Hist. Cash Flow Growth (3-5 yrs)	6.52%	11.18%	9.00%	9.99%	9.78%	105.30%
Current Ratio	1.11	1.11	1.23	1.87	1.25	1.07
Debt/Capital	81.03%	67.95%	42.92%	42.82%	62.52%	69.61%
Net Margin	6.81%	2.98%	11.08%	4.25%	0.11%	2.31%
Return on Equity	154.80%	19.10%	17.10%	40.43%	19.10%	13.87%
Sales/Assets	1.41	1.12	0.55	3.39	1.12	1.24
Proj. Sales Growth (F1/F0)	4.44%	0.00%	4.20%	1.59%	-0.66%	4.04%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>D</b>	<b>F</b>	<b>A</b>
Daily Price Chg	-0.06%	-0.55%	-0.61%	-0.12%	-1.24%	-2.76%
1 Week Price Chg	1.31%	-1.91%	0.13%	1.47%	2.98%	2.14%
4 Week Price Chg	1.49%	1.49%	2.60%	1.87%	-0.49%	-3.73%
12 Week Price Chg	1.25%	9.13%	8.87%	-7.81%	8.36%	10.14%
52 Week Price Chg	23.58%	6.30%	29.34%	-2.73%	-2.55%	41.41%
20 Day Average Volume	2,688,068	263,555	1,603,615	959,215	3,817,326	535,218
(F1) EPS Est 1 week change	0.12%	0.06%	0.00%	0.00%	-0.57%	0.61%
(F1) EPS Est 4 week change	-0.01%	0.00%	0.00%	-0.83%	-10.36%	1.45%
(F1) EPS Est 12 week change	-0.81%	-5.66%	-0.57%	-10.85%	-10.51%	2.22%
(Q1) EPS Est Mthly Chg	0.03%	0.00%	0.00%	-2.79%	-21.11%	1.29%

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## 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.

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### 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	A
Momentum Score	A
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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