



# FedEx Corporation (FDX)

Updated March 22<sup>nd</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$285	<b>5 Year CAGR Estimate:</b>	6.3%	<b>Market Cap:</b>	\$71.3 B
<b>Fair Value Price:</b>	\$266	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	03/08/24
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.4%	<b>Dividend Payment Date:</b>	04/01/24
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$356	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971. The company offers a variety of services including transportation, e-commerce, and business services. It operates four core segments: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx provides domestic and international shipping for package delivery and freight. It also provides sales, marketing, information technology, communications, customer service, technical support, billing, and collection services.

On March 21<sup>st</sup> 2024, FedEx reported its fiscal Q3 results for the period ending February 29<sup>th</sup>, 2024. Quarterly revenues fell 1.9% to \$21.7 billion against the prior-year period.

In FedEx Express, operating results improved due to lower structural costs resulting from DRIVE initiatives, partially offset by lower revenue. In FedEx Ground, operating results increased due to the benefits of DRIVE, higher base yield, and reduced self-insurance costs. Finally, in FedEx Freight, operating results fell due to a decline in fuel surcharges, reduced weight per shipment, and lower shipments, partially offset by higher base yield. Also, note that last year's third-quarter operating income included a \$30 million gain on the sale of a facility.

Accordingly, total operating income improved by 19% to \$1.24 billion. Again, most gains here were produced due to the execution of the DRIVE program. Regarding the DRIVE program, it includes initiatives such as structural flight takedowns, aligning staffing with volume levels, increasing line haul and sort efficiency, temporarily parking aircraft, and other cost-cutting measures. Thus, adjusted EPS rose by 15% to \$3.51.

For fiscal 2024, management narrowed its adjusted EPS outlook, which it expects to land between \$17.25 and \$18.25. Still, the midpoint remains the same, which we have employed in our estimates. All other figures in our tables reflect GAAP results.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$7.56	\$3.70	\$6.59	\$11.25	\$17.10	\$2.06	\$4.92	\$19.45	\$14.33	\$15.48	<b>\$17.75</b>	<b>\$23.75</b>
<b>DPS</b>	\$0.65	\$0.85	\$1.15	\$1.70	\$2.15	\$2.60	\$2.60	\$2.60	\$3.00	\$4.60	<b>\$5.04</b>	<b>\$6.74</b>
<b>Shares<sup>1</sup></b>	310	287	279	270	272	265	262	268	266	256	<b>251</b>	<b>230</b>

FedEx is likely to continue facing profitability headwinds during the current highly inflationary and unstable market environment. The company's business model is cyclical, and thus lower shipment volumes combined with higher expenses can have a violent impact on its margins. Still, over the long run, the company should continue to dominate and expand its footprint in the logistics industry while achieving operational efficiencies due to its massive possible scalability. We have seen this multiple times over the years, with FedEx coming out of recessions quite stronger than before. In terms of the dividend, management has been prudent with hikes, always making sure that it retains a considerable margin of safety before a potential increase. This way, FedEx can still keep paying shareholders and avoid potential dividend cuts, which have not occurred since its first dividend was paid back in 2002. Following increased

<sup>1</sup> In millions



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affordability by applying this strategy, the dividend has nearly doubled since 2019. While the current trading environment is unfavorable, we retain our EPS and DPS CAGR expectations at 6% due to a potential recovery in the coming years and FedEx's cost-reduction initiatives. Finally, FedEx has been executing a high amount of buybacks, having retired around 20% of its shares over the past decade.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15	18.5	18.4	14.4	14.6	15.2	13.5	14.4	17.0	13.3	16.1	15.0
Avg. Yld.	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	0.9%	0.9%	2.2%	1.8%	1.9%

Because of its sensitivity to economic growth (and decline), FedEx has historically traded with relatively sensible valuation multiples in the mid-teens. Shares are currently trading at a P/E of 16.1, which is modestly higher than the decade-average P/E of 15.4. We appreciate the company's optimistic guidance and cost-cutting measures. However, we believe think that the stock is slightly overvalued at current levels. We thus maintain our fair P/E at 15. Shares now yield 1.8%, which is above the company's historical average following its aggressive dividend hikes over the past three years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

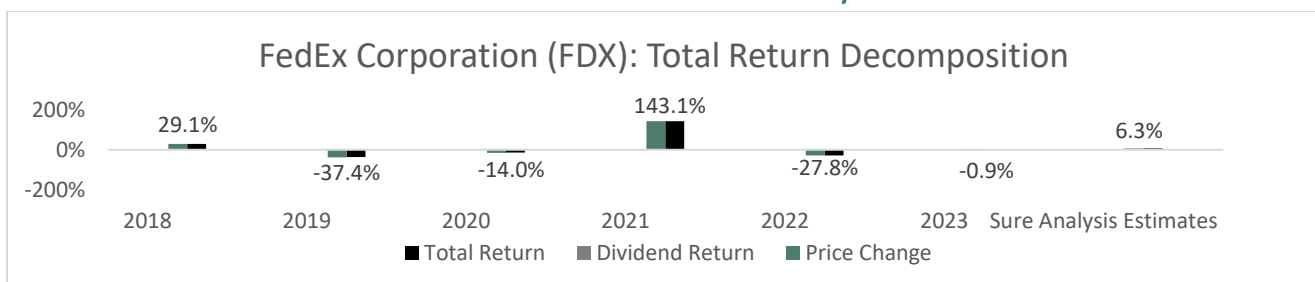
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	23%	17%	15%	13%	126%	53%	13%	21%	30%	28%	28%

FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is high, at 13 times the company's operating cash flows, and the dividend payout ratio is low, at 28%, despite the recent compression in earnings. Considering the sector's duopolistic nature, with FedEx and UPS being essentially the only market participants, the company enjoys a strong moat and the potential to achieve massive economies of scale. During the past couple of years, the company has demonstrated how its logistics expertise and massive network make it essentially the most reliable transportation provider in the world, executing its deliveries with great consistency. This should be proven to an accolade in the future, as its reputation was forged with much positivity for customers and investors alike, during this period. Further, while FedEx has been thought to be a recession-vulnerable business, COVID-19 highlighted how essential its operations are. The dividend is unlikely to be cut even in a severe scenario, thanks to its low payout ratio.

## Final Thoughts & Recommendation

FedEx's revenues and operating income are likely to remain below their pandemic highs this year. That said, gradually improving economic conditions and cost management should keep driving earnings growth. Our growth forecasts point towards annualized medium-term returns of 6.3%, powered by our modest growth expectations, the stock's dividend yield, and the potential for a modest valuation headwind. FedEx earns a hold rating.

## Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	45567	47453	50365	60319	65450	69693	69217	83960	93510	90160
<b>Gross Profit</b>	9757	10748	11826	13318	14102	14827	13344	17950	20170	19170
<b>Gross Margin</b>	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%	19.3%	21.4%	21.6%	21.3%
<b>SG&amp;A Exp.</b>	15	2190	1498	---	---	---	---	---	---	---
<b>D&amp;A Exp.</b>	2587	2611	2631	2995	3095	3353	3615	3793	3970	4176
<b>Operating Profit</b>	3815	2143	3077	4566	4652	4786	2852	5973	6523	5338
<b>Operating Margin</b>	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%	4.1%	7.1%	7.0%	5.9%
<b>Net Profit</b>	2324	1050	1820	2997	4572	540	1286	5231	3826	3972
<b>Net Margin</b>	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%	1.9%	6.2%	4.1%	4.4%
<b>Free Cash Flow</b>	731	1019	890	-186	-989	123	-771	4251	3069	2674
<b>Income Tax</b>	1334	577	920	1582	-219	115	383	1443	1070	1391

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	33070	36531	45959	48552	52330	54403	73537	82780	85990	87140
<b>Cash &amp; Equivalents</b>	2908	3763	3534	3969	3265	2319	4881	7087	6897	6856
<b>Accounts Receivable</b>	5460	5719	7252	7599	8481	9116	10102	12070	11860	10190
<b>Inventories</b>	463	498	496	514	525	553	572	587	637	604
<b>Goodwill &amp; Int. Ass.</b>	2790	4017	7755	7683	7453	7300	6372	7344	6544	6669
<b>Total Liabilities</b>	17793	21538	32175	32479	32914	36646	55242	58610	61060	61060
<b>Accounts Payable</b>	1971	2066	2944	2752	2977	3030	3269	3840	4030	3848
<b>Long-Term Debt</b>	4737	7268	13762	14931	16585	17581	22003	20350	20260	19780
<b>Shareholder's Equity</b>	15277	14993	13784	16073	19416	17757	18295	24170	24940	26090
<b>LTD/E Ratio</b>	0.31	0.48	1.00	0.93	0.85	0.99	1.20	0.84	0.81	0.76

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%	2.01%	6.7%	4.5%	4.6%
<b>Return on Equity</b>	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%	7.13%	24.6%	15.6%	15.6%
<b>ROIC</b>	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%	3.40%	12.4%	8.5%	8.8%
<b>Shares Out.</b>	287.0	282.4	265.5	268.3	272.0	260.9	262.45	264	267	256
<b>Revenue/Share</b>	146.99	165.34	180.52	223.40	240.63	262.99	263.74	318.03	350.24	352.17
<b>FCF/Share</b>	2.36	3.55	3.19	-0.69	-3.64	0.46	-2.94	16.10	11.49	10.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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