



United Parcel Service Inc. (UPS)

Updated July 24th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	12.7%	Market Cap:	\$124 B
Fair Value Price:	\$121	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	08/09/24
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date¹:	08/30/24
Dividend Yield:	5.1%	5 Year Price Target	\$195	Years Of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

United Parcel Service, founded in 1907 and headquartered in Atlanta, GA, is a logistics and package delivery company that offers services including transportation, distribution, ground freight, ocean freight, insurance, and financing. Its operations are split into three segments: US Domestic Package, International Package, and Supply Chain & Freight. UPS trades with a market capitalization of \$124 billion.

UPS announced it increased its quarterly dividend by one penny to \$1.63 on January 30th, 2024, marking its 15th consecutive annual increase.

On July 22nd, 2024, UPS announced it agreed to acquire Estafeta, a Mexican express delivery company, expanding its international presence. It is expected to close on the acquisition by the end of 2024.

On July 23rd, 2024, UPS reported second quarter 2024 results for the period ending June 30th, 2024. Investors were unimpressed as the stock declined by 12% on the day. For the quarter, the company generated revenue of \$21.8 billion, a 1.1% year-over-year decrease. The U.S. Domestic segment (making up 67% of sales) saw a 1.9% revenue decrease, with International also posting a 1.0% revenue decrease, while Supply Chain Solutions saw a 2.6% increase. Adjusted net income equaled \$1.79 per share, down 30% year-over-year.

UPS updated its guidance, now expecting revenue of \$93.0 billion, along with a consolidated adjusted operating margin of 9.4%. Additionally, leadership expects capex of \$4.0 billion and \$500 million in share repurchases.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.75	\$5.43	\$5.75	\$6.01	\$7.24	\$7.53	\$8.23	\$12.13	\$12.94	\$8.78	\$7.80	\$12.56
DPS	\$2.68	\$2.92	\$3.12	\$3.32	\$3.64	\$3.84	\$4.04	\$4.08	\$6.08	\$6.48	\$6.52	\$8.32
Shares²	905	886	868	859	858	857	871	878	871	860	855.0	840.0

During the last financial crisis, UPS' profitability declined substantially. Earnings-per-share dropped from \$4.11 in 2007 to \$2.31 in 2009. Since then, profits have risen relatively consistently. When we look at the 2007-2020 timeframe, earnings-per-share grew by 5.5% annually. In the trailing nine and five years, EPS rose by 7.1% and 3.7%, respectively.

UPS has been experiencing a number of benefits in recent years. One such tailwind is e-commerce, which leads to growth in the number of packages that must be transported across the country. A strong economy drives demand for UPS' services by businesses as well as by consumers, which increase their spending due to higher disposable incomes. With online shopping growth continuing to outpace brick-and-mortar growth for the foreseeable future, UPS should continue to benefit from strong demand for its services.

Results for 2023 were impacted due to the labor negotiations and the costs associated with its agreement with The International Brotherhood of Teamsters. Over 300,000 UPS employees are covered by the Teamsters deal, which includes contract salary increases for all workers, additional full-time positions, and several workplace safeguards and

¹ Estimate

² In millions.

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improvements. It is a five-year agreement that was originally projected to cost UPS over \$30 billion, but that is now likely to be lower.

Results were impressive in 2020, despite the COVID-19 pandemic, and outright impressive in 2021 and 2022. Moreover, the long-term tailwinds are very much intact. Indeed, the pandemic has sped up the trend of online shopping. We are forecasting \$7.80 in earnings-per-share for 2024 to go along with a 10% annual growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.2	18.5	18.4	18.6	15.6	14.7	15.8	15.5	14.6	17.5	16.4	15.5
Avg. Yld.	2.7%	2.9%	2.9%	3.0%	3.2%	3.5%	3.1%	2.2%	2.7%	3.7%	5.1%	4.3%

Over the past decade shares of UPS have traded with an average P/E ratio of about 17. While we believe a moderate premium is warranted for the quality of the business, we are comfortable with 15.5 times earnings as a fair value baseline. With shares trading at 16.4 times our earnings estimate, this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	56%	54%	54%	55%	50%	51%	49%	34%	47%	74%	84%	66%

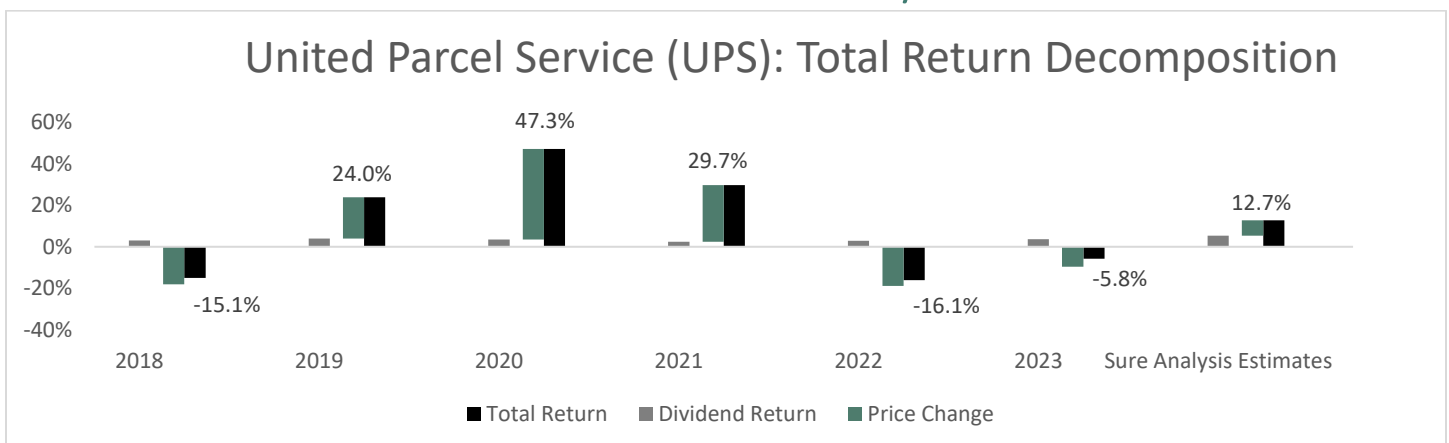
United Parcel Service did not cut its dividend during the last financial crisis, but its payout ratio rose to a relatively high level due to the decline in the company's net profits. Since then, the payout ratio has stabilized around half of earnings, which appears sustainable. We believe that a dividend cut is unlikely, although not impossible during a steep recession.

UPS is the largest logistics/package delivery company in the US. Its top peers include FedEx, DHL Express, and the United States Postal Service. The long-term macro environment is beneficial for the whole industry, thanks to the megatrend of online shopping. None of the big players have an interest in a price war, so volumes could continue to rise even if base pricing is increased over time. Competitive pressures should therefore remain muted for the foreseeable future. UPS was impacted significantly during the last financial crisis, which should be monitored this time around as well.

Final Thoughts & Recommendation

Shares of UPS have declined by 19% year-to-date, which falls short of the performance of the S&P 500 Index, which gained 17% over the same period. United Parcel Service is one of the key companies in an industry that benefits from the online shopping megatrend. It seems likely that UPS will be able to grow its earnings-per-share at a solid pace over the intermediate term. Total return potential comes in at 12.7% per annum, consisting of 10.0% growth and a 5.1% dividend yield, partly offset by the potential for a valuation headwind. We are reiterating our buy rating of UPS.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	58232	58363	61610	66585	71861	74094	84628	97287	100338	90958
Gross Profit	9506	12304	12307	12584	12489	13717	15284	20280	21009	17231
Gross Margin	16.3%	21.1%	20.0%	18.9%	17.4%	18.5%	18.1%	20.8%	20.9%	18.9%
D&A Exp.	1923	2084	2224	2282	2207	2360	2698	2953	3188	3366
Operating Profit	4968	7668	7688	7529	7024	7798	7684	12810	13094	9141
Op. Margin	8.5%	13.1%	12.5%	11.3%	9.8%	10.5%	9.1%	13.2%	13.0%	10.0%
Net Profit	3032	4844	3422	4905	4791	4440	1343	12890	11548	6708
Net Margin	5.2%	8.3%	5.6%	7.4%	6.7%	6.0%	1.6%	13.2%	11.5%	7.4%
Free Cash Flow	3398	5051	3508	-3748	6428	2259	5047	10813	9335	5080
Income Tax	1605	2498	1699	2232	1228	1212	501	3705	3277	1865

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	35440	38311	40377	45574	50016	57857	62408	69405	71124	70857
Cash & Equivalents	2291	2730	3476	3320	4225	5238	5910	10255	5602	3206
Acc. Receivable	6661	7134	7695	8773	8958	9552	10750	12541	12583	11216
Goodwill & Int.	3031	4968	5515	5836	5887	5980	5641	6178	7019	8177
Total Liabilities	33282	35820	39948	44550	46979	54574	61739	55136	51321	53543
Accounts Payable	2754	2587	3042	3934	5188	5555	6455	7523	7515	6340
Long-Term Debt	10779	14334	16075	24289	22202	24740	24312	21507	19662	22264
Total Equity	2141	2470	405	994	3021	3267	657	14253	19786	17306
LTD/E Ratio	5.0	5.8	39.7	24.4	7.3	7.6	37.0	1.5	1.0	1.3

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	13.1%	8.7%	11.4%	10.0%	8.2%	2.2%	19.6%	16.4%	9.4%
Return on Equity	70%	208%	234%	675%	236%	141%	68%	173%	68%	36%
ROIC	20.0%	32.6%	20.5%	23.5%	19.0%	16.7%	5.1%	42.4%	30.7%	17.0%
Shares Out.	924	906	887	875	870	869	871	878	875	860
Revenue/Share	63.02	64.42	69.46	76.10	82.60	85.26	97.16	110.81	114.67	105.77
FCF/Share	3.68	5.58	3.95	-4.28	7.39	2.60	5.79	12.32	10.67	5.91

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

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