

Old Dominion Freight Line

Vols/price in line, expects worse-than-seasonal 1Q margin deterioration; PO \$443

Reiterate Rating: BUY | PO: 443.00 USD | Price: 395.87 USD

Worse-than-expected 1Q view, yet cautiously optimistic

Old Dominion Freight Line's (ODFL) 4Q23 earnings were better than expected (given a lower tax rate and benefit from gain on asset sales), yet its view of 1Q24 margins and 2024 pricing were more conservative than anticipated. It sees 1Q Operating Ratio deteriorating 170-200 bps sequentially versus 4Q (we had expected 110 bps, now 180 bps) as it normalizes from non-recurring gains (60-90 bps) and has weather-related seasonality (100-110 bps) impacts. January Revenues/Day are down 3% year-year, as Less-than-Truckload (LTL) Tons/Day declined 5% year-year (deteriorating from -2% in 4Q), given weather impacts, and LTL Revenue/Hundredweight ex-fuel is up 6% (moderating from +8% in 4Q). The deceleration in volumes and yields underscores the continuing macro pressures in Industrial demand, masking the more permanent benefits of tightening LTL industry capacity. ODFL remains uncertain about the demand turn timing, yet noted positive customer feedback on inventory levels, and it remains cautiously optimistic on 2024 demand. It reiterated its focus on converting its leading service (99% on-time service, 0.1% claims ratio) to 100-150 bps annual pricing over inflation (~4% in 2024).

Earnings beat aided by \$15 million gain on sale

ODFL posted 4Q23 EPS of \$2.94, up 1% year-year, above our \$2.86 forecast and consensus' \$2.85 estimate. Results were favorably impacted by a \$15 million gain on sale (+\$0.10/share) related to the disposal of property and equipment, partly offset by higher Insurance & Claims expense (\$28 mil versus our \$16 mil target; -\$0.08/share impact) due to a negative annual actuarial adjustment. LTL operating metrics were in line across the board, with LTL Tons/Day down 2% (we were -2%) and revenue/hundredweight ex-fuel +8% (we were +8%). Its Operating Ratio was 71.8%, a 60 bps deterioration year-year, 30 bps better than our target. Operating Income was \$421 million, down 2% year-year, yet \$5 mil above our target (+\$0.03/share). Below-the-line income was \$4 mil, \$3 mil above our estimate (+\$0.02/share). The tax rate was 24.1%, below our 25.8% estimate (+\$0.03/share).

PO to \$443

We reiterate our Buy rating on ODFL's shares but lower our PO to \$443 (from \$447) based on 35x our revised 2024e EPS (from 34x) as we move closer to a volume upturn. We lower our 2024 and 2025 EPS estimates 4% and 3%, to \$12.65 and \$14.70, from \$13.15 and \$15.15, respectively, as we narrow our margin and pricing estimates.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.18	11.26	12.65	14.70	16.95
GAAP EPS	12.07	11.26	12.65	14.70	16.95
EPS Change (YoY)	37.0%	-7.6%	12.3%	16.2%	15.3%
Consensus EPS (Bloomberg)			13.24	15.21	16.48
DPS	1.20	1.60	2.08	2.48	2.72
Valuation (Dec)					
P/E	32.5x	35.2x	31.3x	26.9x	23.4x
GAAP P/E	32.8x	35.2x	31.3x	26.9x	23.4x
Dividend Yield	0.3%	0.4%	0.5%	0.6%	0.7%
EV / EBITDA*	20.9x	22.3x	20.3x	18.0x	16.1x
Free Cash Flow Yield*	2.1%	1.9%	2.4%	2.7%	3.1%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 31 January 2024 02:13PM EST

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	447.00	443.00
2024E Rev (m)	6,385.0	6,247.5
2025E Rev (m)	6,941.8	6,815.6
2026E Rev (m)	NA	7,407.8
2024E EPS	13.15	12.65
2025E EPS	15.15	14.70
2026E EPS	NA	16.95
2024E DPS	1.84	2.08

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Stock Data

Price	395.87 USD
Price Objective	443.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	295.80 USD - 438.05 USD
Mkt Val (mn) / Shares Out (mn)	43,814 USD / 110.7
Free Float	90.4%
Average Daily Value (mn)	237.29 USD
BofA Ticker / Exchange	ODFL / NAS
Bloomberg / Reuters	ODFL US / ODFLOQ
ROE (2024E)	30.4%
Net Dbt to Eqty (Dec-2023A)	-8.3%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

PO: price objective

seq: sequentially

vols: volumes

iQprofileSM Old Dominion Freight Line

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	31.5%	26.7%	26.4%	28.0%	28.7%
Return on Equity	37.6%	31.3%	30.4%	31.1%	31.1%
Operating Margin	29.2%	28.0%	29.2%	30.6%	31.8%
Free Cash Flow	916	812	1,053	1,195	1,361

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.3x	1.3x	1.3x	1.3x
Asset Replacement Ratio	2.8x	2.3x	2.2x	2.3x	2.4x
Tax Rate	25.2%	24.8%	25.8%	26.0%	26.0%
Net Debt-to-Equity Ratio	-3.7%	-8.3%	-5.3%	-3.6%	-4.7%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,260	5,866	6,248	6,816	7,408
% Change	19.1%	-6.3%	6.5%	9.1%	8.7%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	2,101	1,965	2,166	2,439	2,719
% Change	27.2%	-6.5%	10.2%	12.6%	11.5%
Net Interest & Other Income	1	7	13	8	7
Net Income (Adjusted)	1,377	1,240	1,362	1,551	1,751
% Change	33.1%	-10.0%	9.9%	13.9%	12.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,365	1,240	1,362	1,551	1,751
Depreciation & Amortization	276	324	344	352	360
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	62	112	0	0	0
Other Adjustments, Net	(12)	(107)	97	92	125
Capital Expenditure	(775)	(757)	(750)	(800)	(875)
Free Cash Flow	916	812	1,053	1,195	1,361
% Change	38.3%	-11.4%	29.7%	13.5%	13.9%
Share / Issue Repurchase	(1,277)	(453)	(940)	(1,000)	(1,000)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	29	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	236	434	331	272	360
Trade Receivables	605	626	696	757	850
Other Current Assets	93	84	84	84	84
Property, Plant & Equipment	3,687	4,095	4,494	4,934	5,442
Other Non-Current Assets	218	274	289	304	319
Total Assets	4,839	5,512	5,893	6,350	7,054
Short-Term Debt	20	20	20	20	20
Other Current Liabilities	510	525	552	583	615
Long-Term Debt	80	60	60	60	60
Other Non-Current Liabilities	576	650	564	428	349
Total Liabilities	1,186	1,255	1,195	1,091	1,044
Total Equity	3,653	4,258	4,697	5,259	6,010
Total Equity & Liabilities	4,839	5,512	5,893	6,350	7,054

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Road Transport/Trucking

Company Description

Old Dominion is a leading trucking and transportation company in the United States, operating principally as a less-than-truckload (LTL) carrier. It has a network of approximately 245 service centers across 48 states and serves over 85,000 customers. The company is based in Thomasville, North Carolina.

Investment Rationale

Old Dominion has distinguished itself as a best-in-class operator in the less-than-truckload (LTL) segment of the trucking industry. The company has increased revenue and EPS at rates above the industry average, improving its operating ratio to industry-best level. We believe ODFL can continue to gain share given its high service levels.

Stock Data

Average Daily Volume

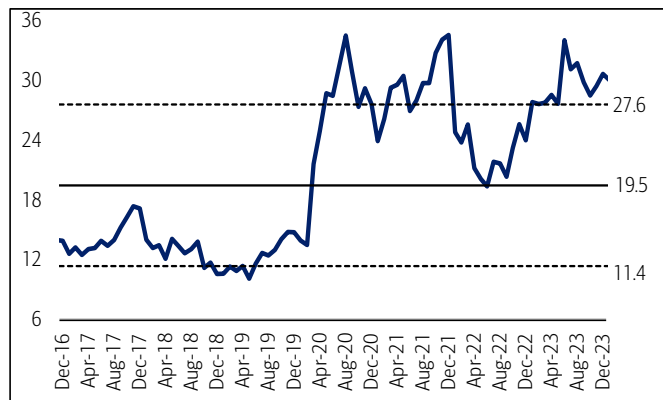
599,403

Quarterly Earnings Estimates

	2023	2024
Q1	2.58A	2.74E
Q2	2.65A	3.24E
Q3	3.09A	3.42E
Q4	2.94A	3.26E

Exhibit 1: ODFL Forward P/E

Shares are trading at 30x our 2024e EPS, above its 11x-28x trading range.

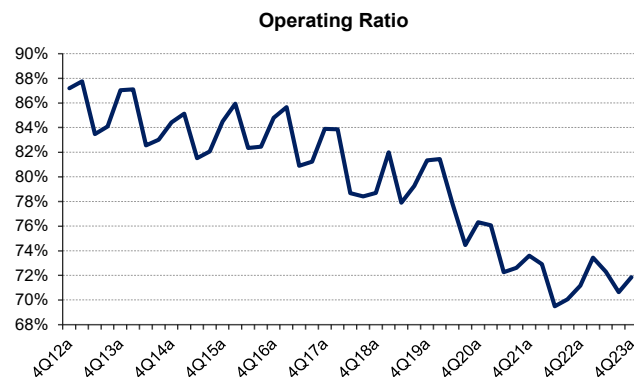


Source: BofA Global Research estimates and Bloomberg.

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Exhibit 2: ODFL Operating Ratio

Operating ratio was 71.8%, 60 bp worse y-y, 30 bps better than our target.



Source: BofA Global Research estimates and company reports.

BofA GLOBAL RESEARCH

Targets \$750 mil in 2024 CapEx; hiring as volume returns

ODFL targets 2024 CapEx of \$750 million, down slightly from \$757 million in 2023 and below our prior \$790 million estimate. It expects to spend \$350 million in real estate investments (up from the \$300 million it originally targeted for 2023), \$325 million in tractors and trailers (down from \$400 million it originally targeted for 2023), and \$75 million for IT and other (down from the \$300 million it originally targeted for 2023). It opened 2 new service centers in 2023 and expects to open 4-5 new centers in 2024 (though it will only launch new capacity if volume environment can support the added costs). ODFL's service network currently has 30% in excess capacity, above its target 25% level.

Average employees were 22,814 in 4Q23, down 4% year-year (below +2% growth in Shipments/Day), yet up 2% from 3Q as ODFL worked to backfill its dock worker capacity as a combination drivers move to address a bump in volumes.

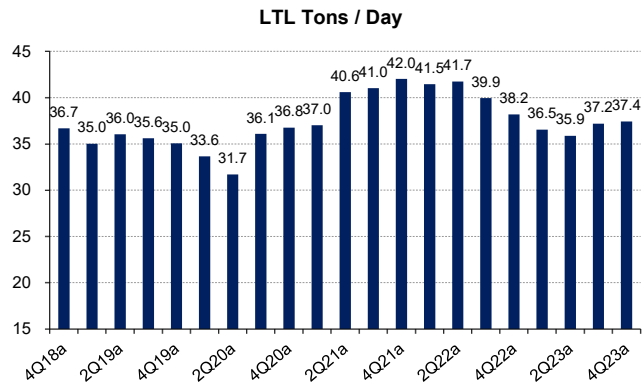
The company targets 25.6% in 2024 tax rate (we estimate 26%) and set its 1Q24 quarterly dividend at \$0.52/share (we had estimated \$0.46/share), up 30% year-year.

Expects ~4% cost inflation in 2024

CFO Adam Satterfield highlighted ODFL's cost focus, yet noted that overhead still increased due to inflationary pressures. Depreciation increased 17% year-year driven by its 2023 CapEx plan. Insurance & Claims, which was unfavorably impacted by its annual actuarial adjustment, increased 260% year-year in 4Q. Though the line item is expected to moderate, ODFL noted a steady increase in 2024 given double-digit premium hikes. The company expects ~4% total cost inflation per shipment in 2024, which it aims to offset through pricing of 100-150 bps over costs.

Exhibit 3: ODFL LTL Tons/Day

Tons/Day were 37k in 4Q23, down 2% year-year, in line with our estimate.

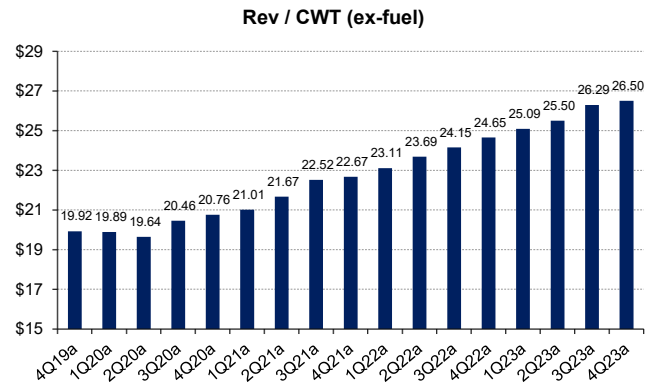


Source: BofA Global Research estimates and company reports.

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Exhibit 4: ODFL Revenue/Hundredweight (ex-fuel)

LTL yields ex-fuel was \$26.50, up 8% year-year and in line with our estimate.

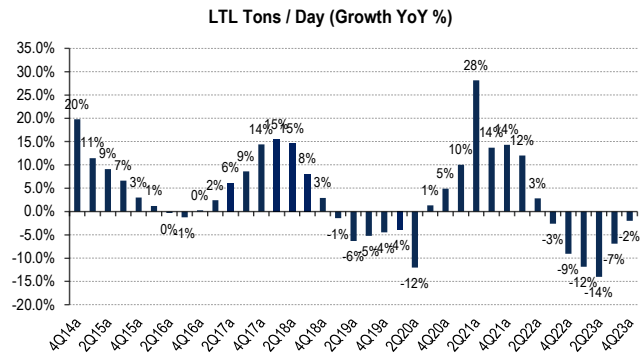


Source: BofA Global Research estimates and company reports.

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Exhibit 5: LTL Tons/Day Growth

Tons/Day were 37k in 4Q23, down 2% year-year, in line with our estimate.

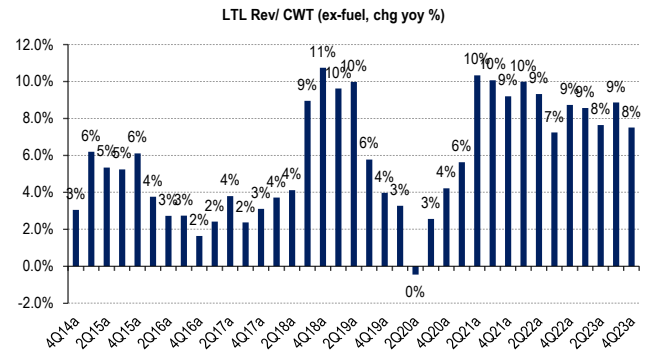


Source: BofA Global Research estimates and company reports.

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Exhibit 6: LTL Revenue/Hundredweight (ex-fuel)

LTL yields ex-fuel was \$26.50, up 8% year-year and in line with our estimate.



Source: BofA Global Research estimates and company reports.

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Price objective basis & risk

Old Dominion Freight Line (ODFL)

Our \$443 price objective is based on a 35x target multiple on our 2024 EPS estimate. Our target multiple is above the company's 20-year historical one-standard-deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as Yellow declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. A return to industry pricing competition, last experienced en masse in the 2008 Great Recession, could weigh on investor views on the health of the industry, and thus OD's leading multiple. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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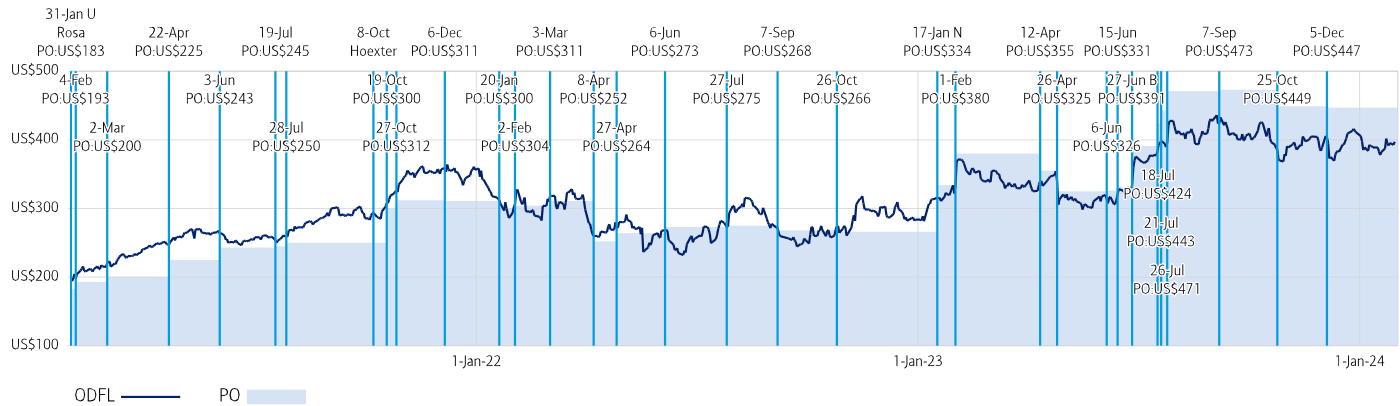
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Disclosures

Important Disclosures

Old Dominion (ODFL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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