

J.B. Hunt Transport Services

Sees end of the Freight Recession in sight;
Buys BNSF brokerage ops; PO to \$216

Reiterate Rating: BUY | PO: 216.00 USD | Price: 194.36 USD

Coming out of the Freight Recession; the end is in sight

President Shelley Simpson sees the market coming out of a freight recession, shifting JBHT's stance, since noting the market was in a freight recession at 1Q23 earnings (see [JBHT Note](#)). Ms. Simpson sees inventory destocking as completed and turned cautiously optimistic on 2H demand. The company highlighted that bid compliance is off historic lows and it sees moderating declines in Intermodal volumes. The improving forward view on the freight cycle is concurrent with an inflection in our bi-weekly Truck-Shipper Survey (see our [Survey](#)) as our BofA Truckload Demand Indicator held above 50 for the 3rd consecutive issue after 26 wks at or below the level. The Indicator was also up yr-yr for only the 2nd time after 38 issues (76 weeks) of declines. With spot trucking rates ex-fuel at \$1.21/mi, we expect carrier exits and seasonal demand to drive a rate inflection.

Pricing a near-term headwind, Dedicated fleet stabilizing

Given the improved industry backdrop, we raise our PO to \$216 from \$207 on 23x our 2024e EPS (from 22x). We decrease our 3Q23 and 2023 EPS estimate 9% and 4%, to \$1.80 and \$7.50, from \$1.97 and \$7.80, moving below the Street's \$1.91 and \$7.70, respectively. We minorly adjust down 2024 and 2025 0%-1%, to \$9.35 and \$10.85, from \$9.40 and \$10.95, respectively. Despite higher fuel (thus increased surcharge), we expect yields to remain pressured due to re-pricing launching in 3Q. The carrier completed all contract renewals in July (from 80% in 2Q), as shippers pulled forward new bids. We target Intermodal revenue per load to decline 20% year-year and Dedicated revenue/truck/week to decline 2.5% year-year. We also target a stabilizing Dedicated tractor count of 13.2k, flattish with 2Q as new sales begin to balance churn.

Expands ICS with BNSF brokerage ops acquisition

On Sep 14, J.B. Hunt acquired BNSF's brokerage operations (truckload, flatbed, reefer, drayage, expedited, Less-than-Truckload). The acquisition highlights the strong working relationship with rail BNSF and JBHT and increases JBHT's scale in brokerage (Integrated Capacity Solutions (ICS)). With JBHT focused on improving returns and ROI's, and depending on final purchase price and revenue/profit scale, this acq could boost EPS \$0.07/sh/yr. We estimate brokerage accounted for roughly half of BNSF Logistics revenues in 2022 (~\$340 mil), and that JBHT is paying approx. \$170 million, based on an average purchase price of ~10x EV/EBIT and a ~95% operating ratio for the segment.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.14	9.79	7.50	9.35	10.85
GAAP EPS	7.14	9.21	7.50	9.35	10.85
EPS Change (YoY)	48.1%	37.1%	-23.4%	24.7%	16.0%
Consensus EPS (Bloomberg)			7.70	9.03	10.24
DPS	1.18	1.60	1.68	1.76	1.84
Valuation (Dec)					
P/E	27.2x	19.9x	25.9x	20.8x	17.9x
GAAP P/E	27.2x	21.1x	25.9x	20.8x	17.9x
Dividend Yield	0.6%	0.8%	0.9%	0.9%	0.9%
EV / EBITDA*	13.6x	10.6x	12.0x	10.4x	9.5x
Free Cash Flow Yield*	1.4%	1.2%	-0.1%	1.6%	0.8%

* For full definitions of *iQmethod*SM measures, see page 4.

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Timestamp: 18 September 2023 05:01AM EDT

18 September 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	207.00	216.00
2023E Rev (m)	12,706.3	12,627.2
2024E Rev (m)	13,490.4	13,362.9
2025E Rev (m)	14,784.1	14,671.7
2023E EPS	7.80	7.50
2024E EPS	9.40	9.35
2025E EPS	10.95	10.85

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Stock Data

Price	194.36 USD
Price Objective	216.00 USD
Date Established	18-Sep-2023
Investment Opinion	B-1-7
52-Week Range	156.28 USD - 209.21 USD
Mrkt Val (mn) / Shares Out (mn)	20,323 USD / 104.6
Average Daily Value (mn)	144.57 USD
BofA Ticker / Exchange	JBHT / NAS
Bloomberg / Reuters	JBHT US / JBHT.OQ
ROE (2023E)	19.3%
Net Dbt to Eqty (Dec-2022A)	33.0%
ESGMeter™	High

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"](#).

iQprofileSM J.B. Hunt Transport Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.5%	18.4%	12.6%	13.9%	3.6%
Return on Equity	26.6%	30.4%	19.3%	20.1%	21.5%
Operating Margin	8.6%	9.5%	8.7%	10.1%	10.4%
Free Cash Flow	276	236	(18)	325	155

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.6x	1.7x	2.3x	1.8x	1.7x
Asset Replacement Ratio	1.7x	2.4x	2.5x	1.9x	1.8x
Tax Rate	23.9%	24.4%	24.7%	24.5%	24.5%
Net Debt-to-Equity Ratio	30.3%	33.0%	30.7%	26.2%	26.2%
Interest Cover	22.8x	28.2x	17.7x	20.4x	21.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	12,168	14,814	12,627	13,363	14,672
% Change	26.3%	21.7%	-14.8%	5.8%	9.8%
Gross Profit	12,168	14,814	12,627	13,363	14,672
% Change	26.3%	21.7%	-14.8%	5.8%	9.8%
EBITDA	1,603	2,058	1,821	2,087	2,293
% Change	28.0%	28.4%	-11.5%	14.6%	9.9%
Net Interest & Other Income	(46)	(50)	(62)	(66)	(66)
Net Income (Adjusted)	761	1,031	783	968	1,112
% Change	47.9%	35.5%	-24.1%	23.7%	14.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	761	1,031	783	968	1,112
Depreciation & Amortization	557	645	719	738	754
Change in Working Capital	(270)	(148)	145	9	(1)
Deferred Taxation Charge	53	175	58	0	0
Other Adjustments, Net	122	74	96	0	0
Capital Expenditure	(948)	(1,541)	(1,819)	(1,390)	(1,340)
Free Cash Flow	276	236	-18	325	155
% Change	-28.1%	-14.6%	NM	NM	-52.2%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	356	52	78	33	86
Trade Receivables	1,503	1,528	1,382	1,546	1,732
Other Current Assets	445	588	555	555	555
Property, Plant & Equipment	4,068	4,980	5,881	6,533	7,120
Other Non-Current Assets	420	595	626	626	626
Total Assets	6,791	7,742	8,524	9,293	9,293
Short-Term Debt	356	0	250	250	250
Other Current Liabilities	1,370	1,568	1,542	1,666	1,666
Long-Term Debt	945	1,262	1,195	1,135	1,135
Other Non-Current Liabilities	1,002	1,246	1,078	1,082	1,082
Total Liabilities	3,673	4,076	4,065	4,133	4,133
Total Equity	3,118	3,667	4,459	5,160	5,160
Total Equity & Liabilities	6,791	7,742	8,524	9,293	9,293

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Road Transport/Trucking

Company Description

J.B. Hunt Transport Services (JBHT), founded in 1969, is one of the largest intermodal, dedicated, truckload, and brokerage providers in North America. The company provides a range of transportation services throughout the continental United States, Canada and Mexico. The company operates in five segments: Truck (7% of revenues), Intermodal (48%), Dedicated contract services (21%), Final Mile Services (6%) and Integrated capacity solutions (18%).

Investment Rationale

JBHT remains one of the premier transport providers in the US. It has reduced its exposure to the volatile over the road business (to 2,242 trucks in 2023 from more than 5,200 in Mar. 2007), while increasing its Intermodal focus (approx. 48% of revenues) and Dedicated trucking (21% revenues), which provides improved ROIC & continues to grow. Given its diverse exposure to intermodal, truck, brokerage, dedicated, and final mile, JBHT works to grow through cycles, with a focus on improving returns

Stock Data

Average Daily Volume 743,838

Quarterly Earnings Estimates

	2022	2023
Q1	2.29A	1.89A
Q2	2.55A	1.81A
Q3	2.57A	1.80E
Q4	2.38A	2.00E



Price objective basis & risk

J.B. Hunt Transport Services (JBHT)

Our \$216 price objective is based on a 23x target multiple of our 2024e EPS. Our target multiple is at the top of its 16x-23x one standard deviation trading band as earnings are expected to trough in late '23 and begin to recover in '24. We expect pricing pressure to be somewhat countered with improved operational performance as supply chains improve fluidity. We forecast solid double-digit EPS gains over time, robust Intermodal performance, and potential for improved box turns as rail service improves. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network, post competitors shift to UNP.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to BNSF or Norfolk Southern's rail network or J.B. Hunt's relationship with either of those carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

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 National	CNI	CNI US	Ken Hoexter
	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
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB 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
	TuSimple	TSP	TSP US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Triton International, Ltd	TRTN	TRTN 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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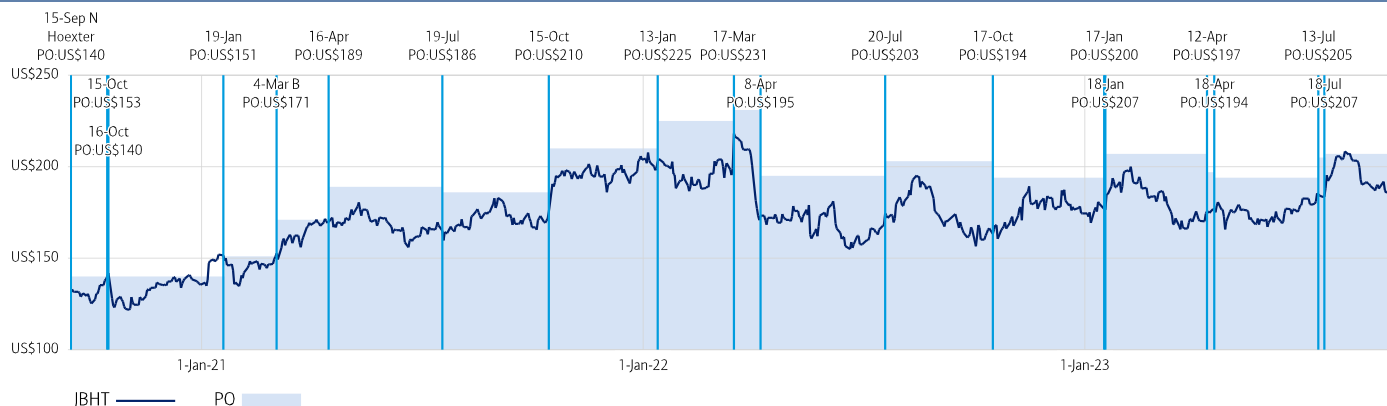
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J.B. Hunt Trans (JBHT) Price Chart



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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	52.94%	Buy	42	58.33%
Hold	29	21.32%	Hold	13	44.83%
Sell	35	25.74%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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%

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