Transportation - Trucking

LTL 4Q23 Wrap-Up: Yields accel post-Yellow wave; service/capacity ramps

Industry Overview

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Equity
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Road Transport/Trucking

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We summarize the 6 public Less-Than-Truckload (LTL) carriers' 4Q results, which are within the 10 largest US LTL's (FedEx Freight, ODFL, XPO, TFII, ARCB, SAIA, Estes, R+L, Southeastern Freight, and Averitt). The Top 10 represents ~75% of the LTL market.

Carriers lean on price/service focus in Yellow aftermath

In six months since Yellow's bankruptcy, LTL share has been redistributed to price/service focused operators, and pricing momentum remains strong. Carriers including XPO and SAIA have taken clear strides to accelerate capacity expansion and narrow the price/service/margin gap between it and best in class peer Old Dominion (see our Yellow auction note). In 4Q23, Saia (SAIA) pulled forward 2024 rate renewals, as it repriced 50% more contracts year-year in 4Q23 (launched GRI in Dec), at an 8.7% higher rate on average (accelerating from 5.6% in 3Q23). XPO (XPO) made similar gains as it benefited from contract rate increases of 9.0% (in line with 3Q23), given a rapid influx of demand, a level it expects to accelerate in 1Q24 (launched GRI in Jan). Alternatively, best-in-class LTL carrier Old Dominion (ODFL) kept its long-term view as it aims to price 150-200 bps higher than costs consistently through renewals. Unionized carrier ArcBest (ARCB) renewed contracts 5.6% higher in 4Q23 (accelerating from +4% in 3Q23) as it culled less profitable spot freight for core LTL-rated business, repricing up double-digits. TFI International (TFII; contract renewals up 5% year-year) is focused on improving service, price, and density 2.5 years into its acquisition of unionized UPS Freight.

Volumes inflect positive in 4Q, hit by harsh Jan weather

In 4Q23, tons/day increased an average of 0.9% year-year at public LTL carriers, inflecting positive from 3Q23's 2.4% decline. The increase was led by +3.8% year-year shipments/day, as sustained Yellow share gains offset an average 2.6% decline in weight/shipment (partly as Yellow's weight/shipment was lower than peers, and the economic backdrop remains soft). In Jan., carriers noted winter weather did challenge volumes and operations, with Jan tons/day down 5.2% among peers that disclosed, decelerating by 510 bps from Dec. exit levels.

Pricing accelerating; peers look to narrow gap to ODFL

LTL revenue/cwt ex-fuel was up 7% year-year in 4Q23, accelerating from +5.5% in 3Q23, and LTL revenue/shipment ex-fuel was up 5.4% year-year, accelerating from +3.9% in 3Q23 among carriers that disclose. XPO targets ex-fuel yields will maintain 4Q23 growth levels in 1Q (from +10.3% year-year, we forecast 10.8%), as it works to narrow the service/pricing gap between it and best-in-class peer ODFL.

XPO/SAIA see path to sequential margin outperformance

LTL Adj Operating ratios averaged 84.1% in 4Q23, improving 80 bps year-year, but deteriorating 70 bps sequentially on average. XPO expects to outperform normal 4Q-1Q sequential deterioration of 40 bps, as its focus on service, pricing, and productivity leads to op leverage. SAIA targets its operating ratio to improve 60-75 bps sequentially as higher pricing works to offset Jan service disruption. ODFL expects its 1Q operating ratio to deteriorate 170-200 bps seq. as it normalizes from non-recurring gains (60-90 bps) and had weather impacts (100-110 bps). ARCB sees normal sequential deterioration of 400 bps (we target +300 bps). TFII targets 4Q-1Q deterioration of ~100 bps).

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Valuation Thoughts

We have moved up to 1.4x PEG for SAIA and XPO, which moves sub-1x for XPO next year (nearly 0.7x) and at 1.4x for SAIA, as we moved to 37x/36x PE targets for SAIA/XPO, slightly above ODFL targets (35x our '24e EPS), given outsized growth expectations as new volumes settle in and pricing continues to soar. For TFII, we estimate 20x our '24e EPS, above its 11x-17x historical range, as its service gains are compounded by macro progress through '24 (after a weak 1Q) and breakeven year-1 Daseke (DSKE) post-merger. For ARCB, we estimate 13x our '24e EPS, near the mid-point of its 10x-17x historical range as we are encouraged by its pricing/mix focus.

LTL Industry comp charts/tables

Exhibit 1: 4Q23 Less-than-Truckload Peer Comparisons

Public LTL carriers' ex-fuel revenue/hundredweight was up 7% year-year (on average, among peers that disclose) accelerating from +5.5% in 3Q23, and up +2.7% sequentially. LTL ex-fuel revenue/shipment was up +5.4% year-year, accelerating from +3.9% in 3Q23, and up 2.7% sequentially. Strong yields highlight price momentum remains strong in the wake of Yellow's August bankruptcy.

LTL	Operating Ratio	Tons/Day ('000s)	Shipments/Day ('000s)	Lbs/Shipment	Rev/CWT (ex-fuel, $)	Rev/CWT (w/ fuel, $)	Rev/Shipment (ex-fuel, $)	Rev/Shipment ($)
XPO	86.5%	34.7	51.4	1350	$23.37	$28.60	$308.20	$378.49
SAIA	85.0%	22.0	33.6	1314	$22.47	$27.21	$295.22	$357.50
ODFL	71.8%	37.4	49.5	1511	$26.50	$32.23	$400.53	$487.13
TFII	91.0%	13.5	22.7	1188	$28.81	$35.52	$342.18	$421.89
ARCB	87.7%	11.6	19.9	1165	n/a	$48.98	n/a	$570.69
FDX	81.1%	46.8	99.0	946	n/a	$40.29	n/a	$384.49
KNX	85.5%	10.0	19.3	1033	$16.19	$19.29	$167.22	$199.30

LTL	YEAR-YEAR OR	Tons/Day (Y-Y%)	Shipments/Day (Y-Y%)	Lbs/Shipment (Y-Y%)	Rev/CWT (ex-fuel) (Y-Y%)	Rev/CWT (w/ fuel) (Y-Y%)	Rev/Shipment (ex-fuel)(Y-Y%)	Rev/Shipment (Y-Y%)
XPO	380 bps	2.0%	5.7%	-3.4%	10.3%	5.8%	7.4%	2.8%
SAIA	90 bps	8.2%	18.1%	-8.3%	11.7%	7.0%	2.4%	-1.9%
ODFL	70 bps	-2.0%	1.5%	-3.5%	7.5%	3.0%	3.8%	-0.6%
TFII	60 bps	5.6%	-4.5%	10.6%	-4.1%	-9.0%	6.0%	0.6%
ARCB	90 bps	-7.2%	-0.8%	-6.5%	n/a	6.8%	n/a	-0.1%
FDX	100 bps	-10.1%	-4.8%	-5.6%	n/a	7.0%	n/a	1.0%
KNX	0 bps (flat)	9.7%	11.9%	-1.9%	9.5%	4.2%	7.4%	2.2%

LTL	SEQUENTIAL OR	Tons/Day (Q-Q%)	Shipments/Day (Q-Q%)	Lbs/Shipment (Q-Q%)	Rev/CWT (ex-fuel) (Q-Q%)	Rev/CWT (w/ fuel) (Q-Q%)	Rev/Shipment (ex-fuel)(Q-Q%)	Rev/Shipment (Q-Q%)
XPO	40 bps	-4.0%	-4.2%	0.2%	2.5%	3.1%	2.8%	3.3%
SAIA	160 bps	-5.3%	-2.0%	-3.4%	5.0%	5.2%	1.5%	1.7%
ODFL	120 bps	0.7%	-0.3%	0.9%	0.8%	1.1%	1.8%	2.1%
TFII	20 bps	-6.1%	-8.9%	3.0%	3.5%	3.8%	6.6%	6.9%
ARCB	120 bps	-6.4%	-2.2%	-4.2%	n/a	3.6%	n/a	-0.8%
FDX	210 bps	3.6%	4.6%	-0.9%	n/a	4.1%	n/a	3.2%
KNX	60 bps	-2.9%	-2.1%	-0.9%	1.8%	2.3%	0.9%	1.4%

LTL	ABSOLUTE LEVELS	Tons/Day (Q-Q, '000s)	Shipments/Day (Q-Q, '000s)	Lbs/Shipment (Q-Q, Lbs)	Rev/CWT (ex-fuel) (Q-Q, $)	Rev/CWT (w/ fuel) (Q-Q, $)	Rev/Shipment (ex-fuel)(Q-Q, $)	Rev/Shipment (Q-Q, $)
XPO		-1.5	-2.3	3	$0.56	$0.86	$8.41	$12.13
SAIA		-1.2	-0.7	-46	$1.08	$1.34	$4.43	$5.86
ODFL		0.2	-0.1	14	$0.21	$0.36	$6.96	$10.00
TFII		-0.9	-2.2	3	$0.97	$1.29	$21.21	$27.21
ARCB		-0.8	-0.5	-51	n/a	$1.70	n/a	($4.31)
FDX		1.6	4.4	-9	n/a	$1.58	n/a	$12.04
KNX		-0.3	-0.4	-9	$0.28	$0.43	$1.42	$2.71

Source: BofA Global Research estimates and company reports

Note: Red (+) in operating ratio signals deterioration

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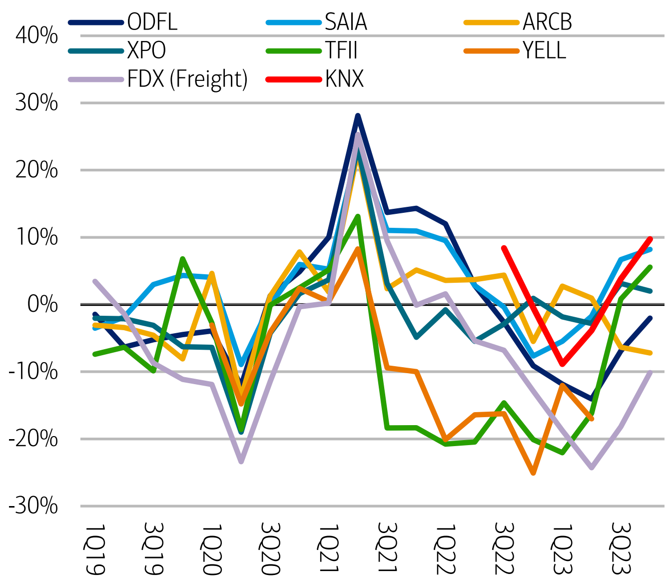
Exhibit 2: LTL Tons/Day (y-y%) by quarter

LTL Tons/Day was up 0.9% year-year in 4Q23 (on average), inflecting positive from a 2.4% decline in 3Q23



Source: BofA Global Research estimates and company reports

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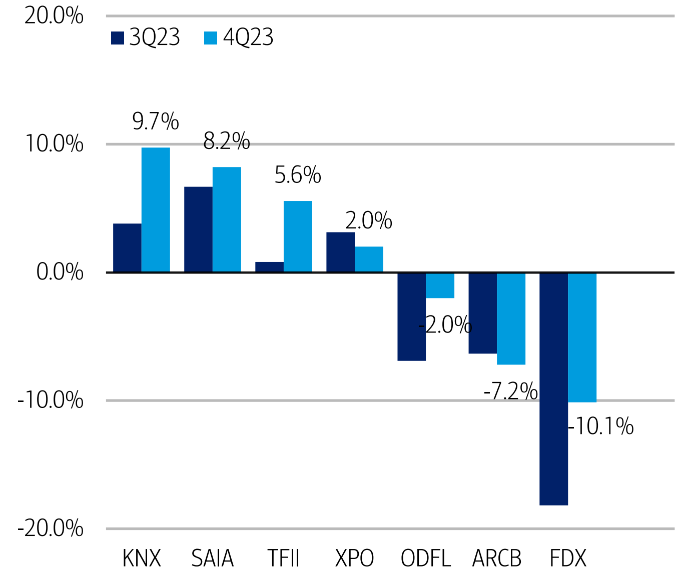
Exhibit 3: 4Q23 LTL Tons/Day (y-y%)

KNX tons.day outpaced peers, followed by SAIA



Source: BofA Global Research estimates and company reports

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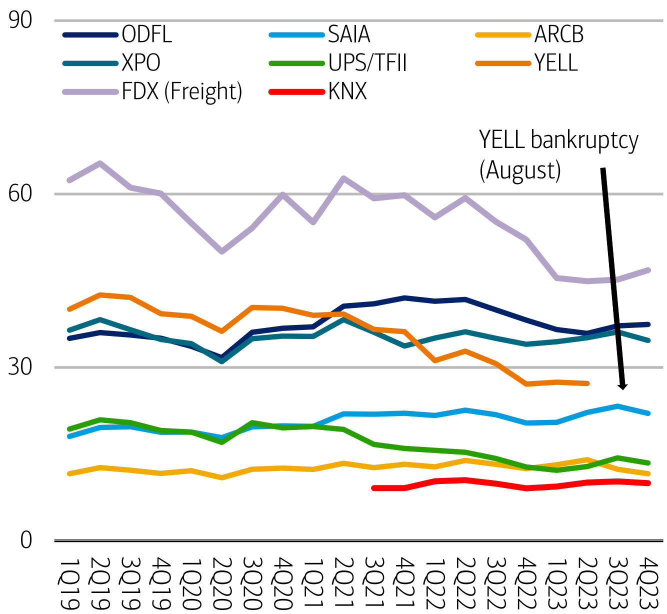
Exhibit 4: LTL Tons/Day ('000s)

LTL Tons/Day averaged 25.1k in 4Q23, down 2.9% sequentially (on average)



Source: BofA Global Research estimates and company reports

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Exhibit 5: LTL Tons/Day by month (y-y%)

Jan Tons/Day averaged down 5.2% among peers that disclose preliminary results, decelerating 510 bps on average on harsh weather impacts

Date	ODFL	YELL	ARCB	SAIA	XPO	Average (ex-YELL)
Jan-23	-7.8%	-17.2%	1.6%	-3.7%	2.8%	
Feb-23	-12.4%	1.3%	2.1%	-7.6%	-2.0%	
Mar-23	-15.8%	-16.9%	4.3%	-5.2%	-5.5%	
Apr-23	-14.5%	-16.4%	1.3%	-1.1%	-2.0%	
May-23	-14.4%	-16.3%	2.0%	-2.0%	-2.3%	
Jun-23	-13.3%	-18.3%	-0.2%	-2.2%	-4.0%	-4.9%
Jul-23	-11.1%		-5.2%	3.4%	4.2%	-2.2%
Aug-23	-6.0%		-7.1%	6.8%	3.3%	-0.8%
Sep-23	-3.7%		-6.6%	9.7%	2.2%	0.4%
Oct-23	-1.9%		-4.0%	7.8%	2.5%	1.1%
Nov-23	-2.3%		-10.0%	9.2%	-0.5%	-0.9%
Dec-23	-2.5%		-8.3%	6.8%	3.6%	-0.1%
Jan-24	-5.1%		-18.0%	3.3%	-1.1%	-5.2%

Source: BofA Global Research estimates and company reports

No data provided (BofA quarterly average)

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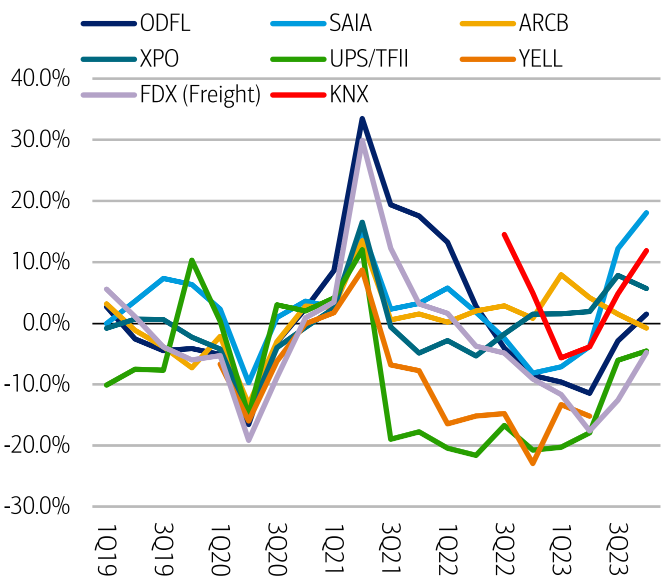
Exhibit 6: LTL Shipments/Day (y-y%)

LTL Shipments/Day accelerated in 4Q23, up 3.8% year-year (on average), from +0.7% 3Q23



Source: BofA Global Research estimates and company reports

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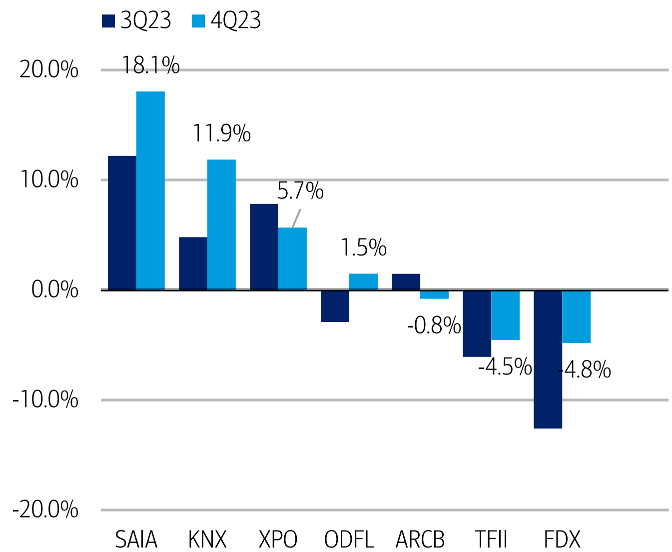
Exhibit 7: 4Q23 LTL Shipments/Day (y-y%)

SAIA's shipments/day growth outpaced peers



Source: BofA Global Research estimates and company reports

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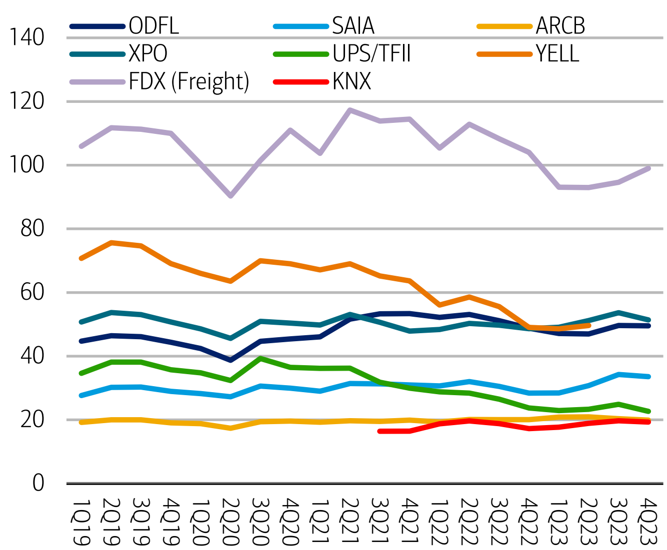
Exhibit 8: LTL Shipments/Day ('000s)

LTL Shipments/Day averaged 42.2k in 4Q23, down 2.2% sequentially (on average)



Source: BofA Global Research estimates and company reports

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LTL Shipments/Day by month (y-y%)

Jan shipments day averaged up 1.4% year-year among carriers that disclosed preliminary results

Date	ODFL	YELL	ARCB	SAIA	XPO	FDX	Avg(ex-YELL)
Jan-23	-5.9%	-18.1%	7.1%	-4.0%	5.0%	-10.0%	
Feb-23	-10.1%	-2.5%	9.5%	-7.6%	1.1%	-14.0%	
Mar-23	-12.9%	-19.3%	7.3%	-9.4%	-0.5%	-19.0%	
Apr-23	-11.8%	-15.4%	4.7%	-5.7%	3.1%	-17.0%	
May-23	-11.4%	-13.8%	2.0%	-4.2%	1.8%	-17.0%	
Jun-23	-11.2%	-16.4%	5.4%	-1.8%	0.9%	-16.0%	-4.5%
Jul-23	-8.5%		1.4%	6.0%	8.8%	-14.0%	-1.3%
Aug-23	-1.2%		2.1%	14.2%	8.3%	-8.0%	3.1%
Sep-23	1.0%		0.9%	16.3%	6.6%	-6.0%	3.8%
Oct-23	-8.5%		3.7%	18.0%	6.2%	-5.0%	2.9%
Nov-23	-1.2%		-5.0%	18.9%	3.7%	-4.0%	2.5%
Dec-23	1.0%		-1.9%	16.5%	6.6%		5.5%
Jan-24			-9.0%	11.8%	1.4%		1.4%

Source: BofA Global Research estimates and company reports

No data provided (BofA quarterly average)

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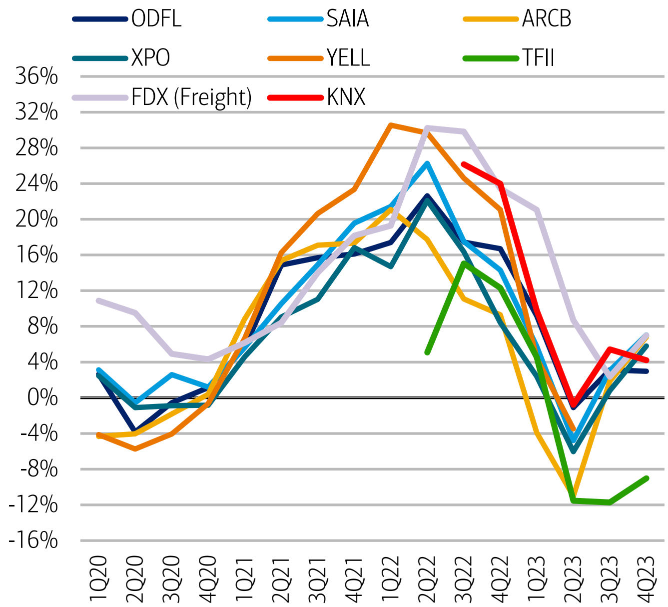
Exhibit 9: LTL Revenue/Hundredweight (cwt, y-y%)

LTL Revenue/Hundredweight was up 3.5% year-year in 4Q23 (on average); accelerating from +0.7% in 3Q23



Source: BofA Global Research estimates and company reports

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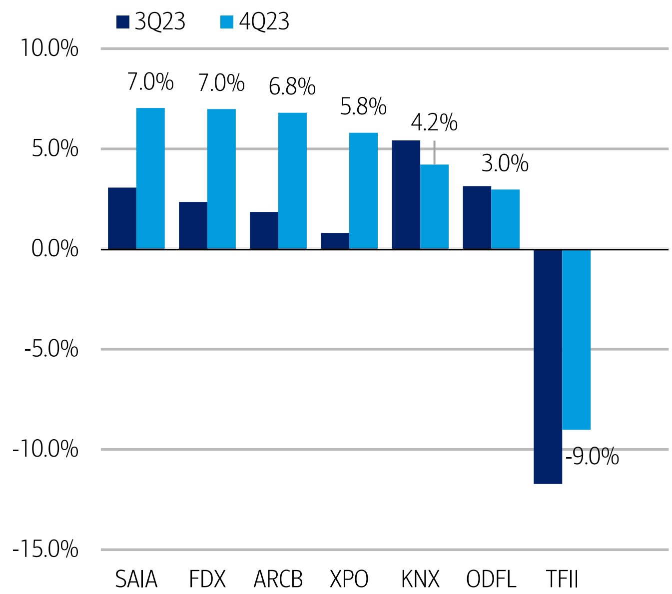
Exhibit 10:4Q23 LTL Revenue/Hundredweight (cwt, y-y%)

SAIA and FedEx 4Q23 revenue/hundredweight growth outpaced peers, followed by ARCB and XPO; TFII trailed due to lower relative service levels and influx of heavier shipments



Source: BofA Global Research estimates and company reports

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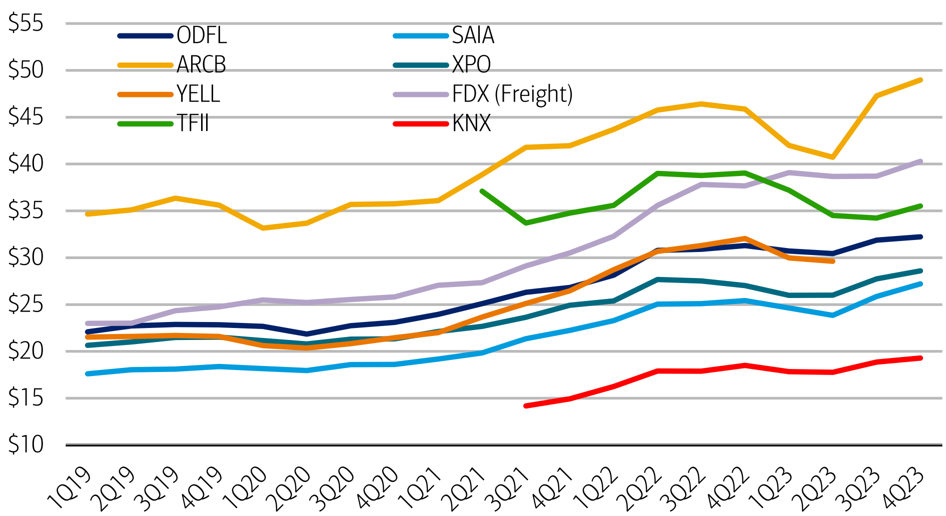
Exhibit 11: LTL Revenue/Hundredweight (cwt)

LTL Revenue/Hundredweight averaged $32.20, up 3.3% sequentially (on average), rising for all carriers on mix shifts (lower-relative weight of YELL shipments) and pricing support from Yellow freight diversions.



Source: BofA Global Research estimates and company reports

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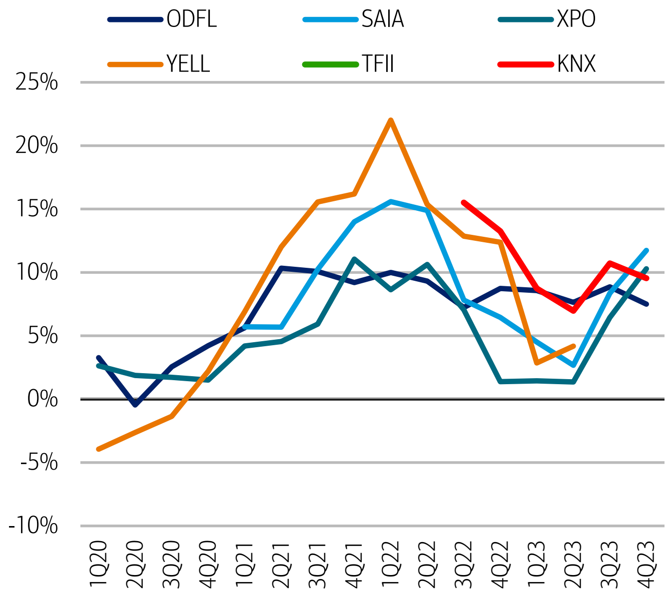
Exhibit 12: LTL Revenue/Hundredweight (cwt), ex-fuel (y-y%)
Revenue/cwt ex-fuel was up 7% ex-fuel year-year in 4Q23, accelerating from +5.5% in 3Q23



Source: BofA Global Research estimates and company reports

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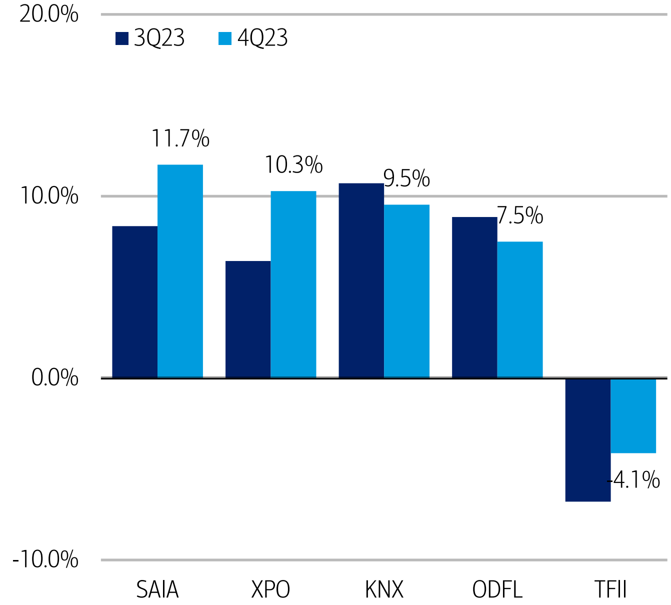
Exhibit 13: 4Q23 LTL Revenue/Hundredweight (cwt), ex-fuel (y-y%)
SAIA 4Q23 LTL revenue/hundredweight (ex-fuel) growth outpaced peers



Source: BofA Global Research estimates and company reports

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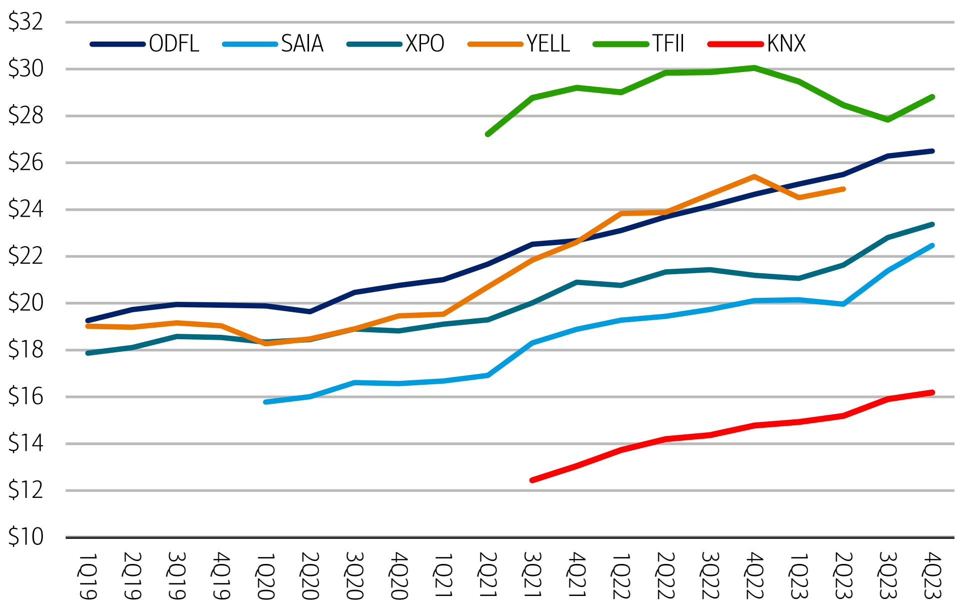
Exhibit 14: LTL Revenue/Hundredweight (cwt), ex-fuel
Revenue/cwt ex-fuel was up 2.7% sequentially in 4Q23 (on average), rising for all carriers that disclose



Source: BofA Global Research estimates and company reports

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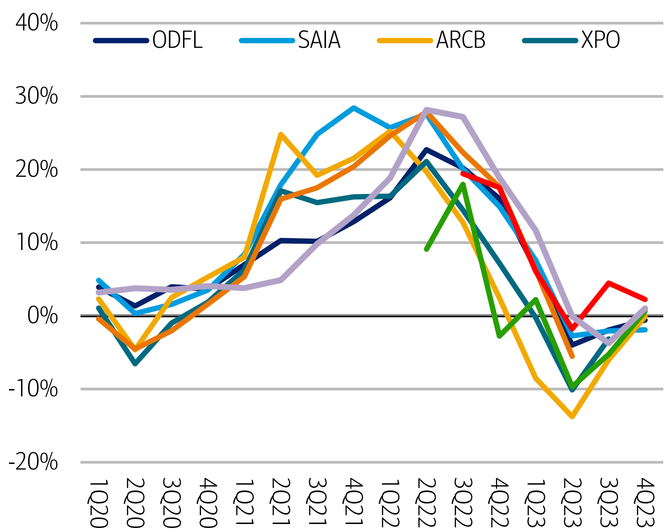
Exhibit 15: LTL Revenue/Shipment (y-y%)

LTL Revenue/Shipment was up 0.6% year-year (on average), inflecting positive from -2.5% in 3Q23



Source: BofA Global Research estimates and company reports

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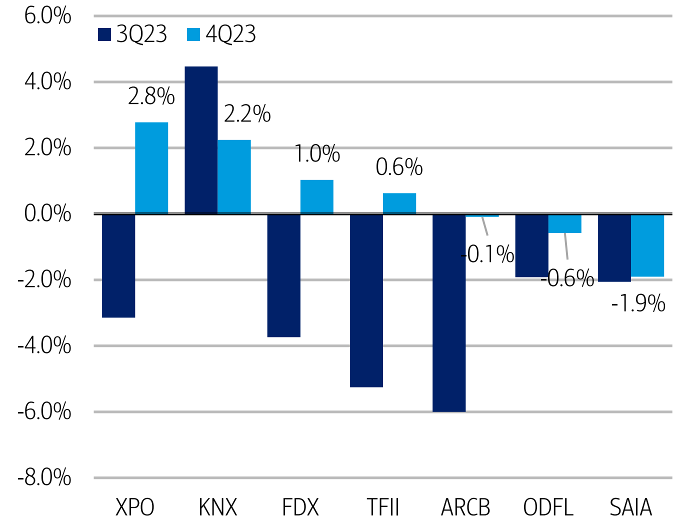
Exhibit 16: 3Q23 LTL Revenue/Shipment (y-y%)

XPO 4Q23 revenue/shipment growth led peers



Source: BofA Global Research estimates and company reports

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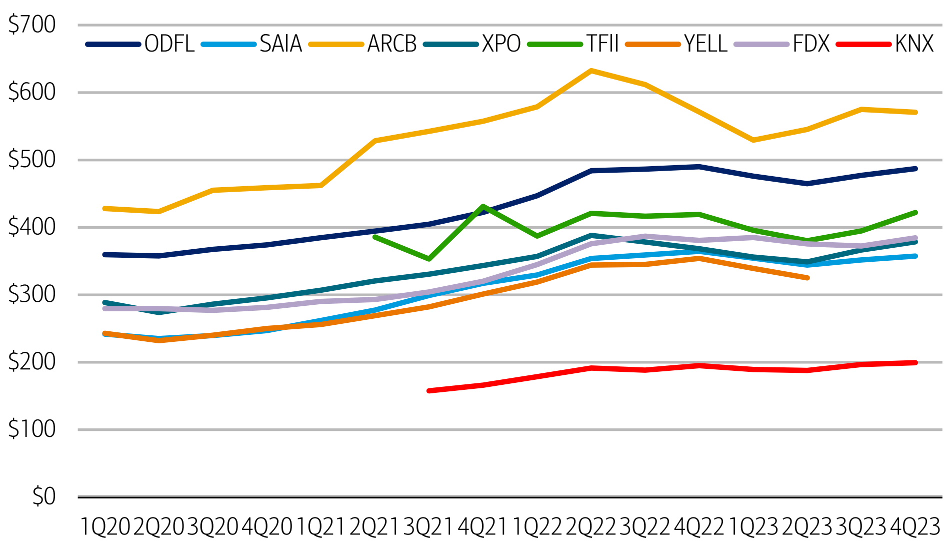
Exhibit 17: LTL Revenue/Shipment ($)

LTL Revenue/Shipment averaged $400, up 2.5% sequentially (on average)



Source: BofA Global Research estimates and company reports

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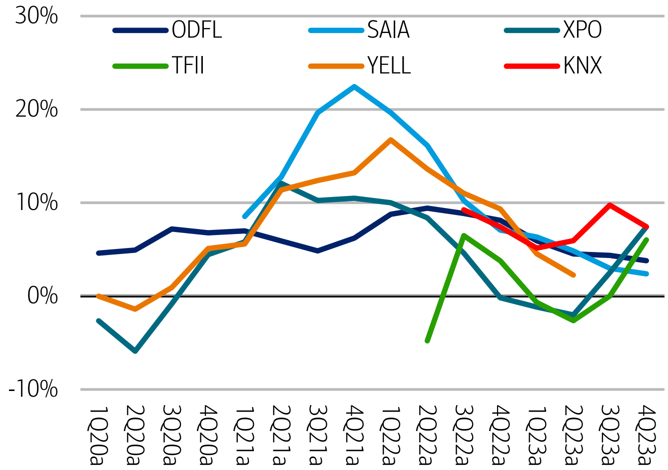
Exhibit 18: LTL Revenue/Shipment ex-fuel (y-y%)

LTL Revenue/Shipment (ex-fuel) was up 5.4% year-year, accelerating from +3.9% in 3Q23



Source: BofA Global Research estimates and company reports

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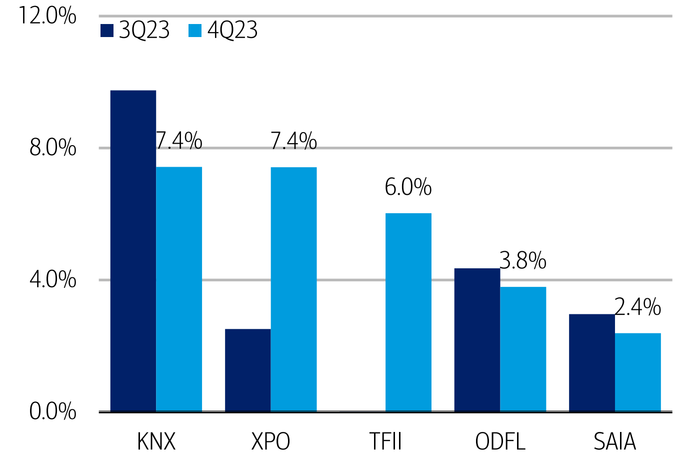
Exhibit 19: 4Q23 LTL Revenue/Shipment ex-fuel (y-y%)

KNX and XPO LTL revenue/shipment (ex-fuel) growth outpaced peers (among carriers that disclose)



Source: BofA Global Research estimates and company reports

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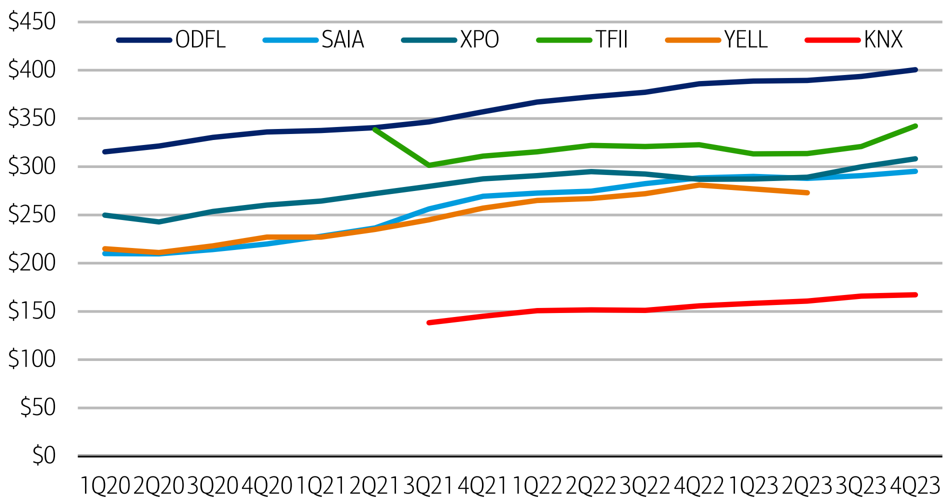
Exhibit 20: LTL Revenue/Shipment ex-fuel ($)

LTL Revenue/Shipment ex-fuel averaged $303, up 2.7% sequentially (on average, among peers that disclose)



Source: BofA Global Research estimates and company reports

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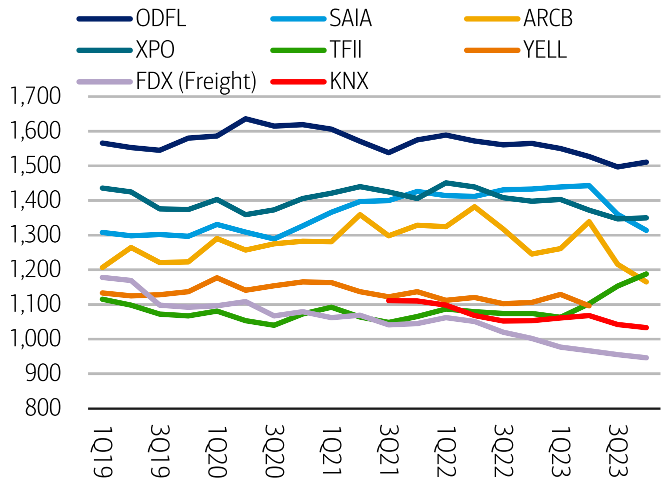
Exhibit 21: LTL Weight/Shipment (lbs)
LTL Weight/Shipment averaged 1,215 lbs in 4Q23, down 2.6% year-year, and down 0.7% sequentially (on average)



Source: BofA Global Research estimates and company reports

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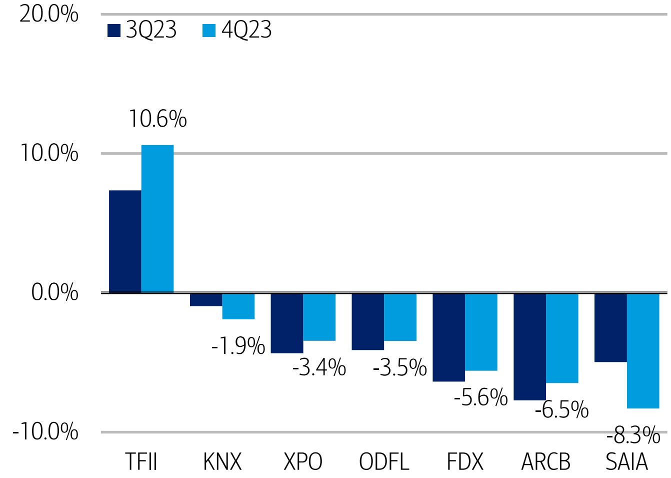
Exhibit 22: 4Q23 LTL Weight/Shipment (y-y%)
TFII 4Q23 weight/shipment growth led peers; TFII was the only peer to post - year-year gains, as the carrier targets heavier freight and picked up higher relative weight/shipment freight from YELL.



Source: BofA Global Research estimates and company reports

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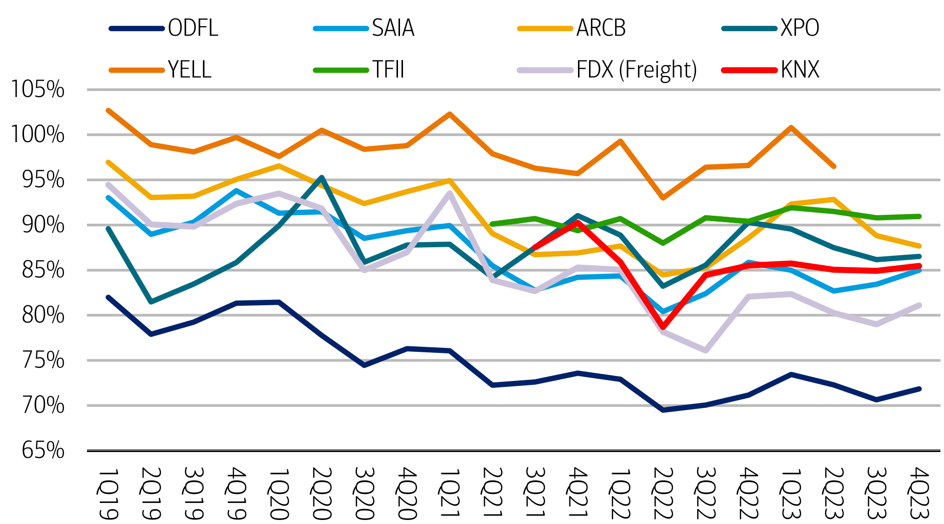
Exhibit 23: LTL Adjusted Operating Ratio (%)
LTL Adjusted Operating Ratios averaged 84.1%, improving 80 bps year-year, but deteriorating 70 bps sequentially on average.



Source: BofA Global Research estimates and company reports

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Exhibit 24: Stocks mentioned
Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ARCB	ARCB US	ArcBest	US$ 143.81	C-3-7
FDX	FDX US	FedEx Corp.	US$ 242.62	B-1-7
KNX	KNX US	Knight-Swift	US$ 59.79	B-1-7
ODFL	ODFL US	Old Dominion	US$ 435.33	B-1-7

Exhibit 24: Stocks mentioned
Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
SAIA	SAIA US	Saia Inc.	US$ 565.265	B-1-9
TFII	TFII US	TFI International	US$ 142.3	B-2-7
YTFII	TFII CN	TFI International	C$ 191.59	B-2-7
XPO	XPO US	XPO, Inc.	US$ 120.84	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

ArcBest Corporation (ARCB)

Our $141 price objective is based on a 13x multiple on our 2024 EPS estimate, near the midpoint of its historical range. ArcBest shares have averaged 14x over the past 5 years and traded in a 7x-18x one-standard deviation range over the past 20 years on forward earnings (10x-17x more recently). We believe a multiple slightly below its historical average is appropriate given a slower macro environment, negative operating leverage from lower volumes, and its move to add more transactional (lower profitable) freight, which can pressure earnings in this slower environment. Its unionized labor capacity could also restrict and limit its capacity agility and thus lead to underperformance vs peer carriers. Alternatively, benefits are moving past trough earnings, potential improvement at ARCB from its integration plan and focus on its asset-light segments, as well as structural gains at asset-based margins over time as it benefits from the industry's focus on improved pricing.

Downside risks to our price objective and estimates are a sustained economic downturn, a decline in fuel costs (LTLs make a profit on surcharges), a return to pricing competition among its peers, a significant recovery of its largest competitor and rising labor costs.

Upside risks to our price objective and estimates are more resilient yield growth, a faster-than-expected recovery in LTL volumes, and accelerated reduction in costs.

FedEx Corp. (FDX)

Our $313 price objective is based on a 15x multiple on our F25E EPS estimate. Our target multiple is near the midpoint of its 20-year historical 12.5x-18.5x range as FDX ramps its $1.8 bil DRIVE cost savings in F24 ($1.2 bil in F25), and into its $2 bil One FedEx Network 2.0 program between F25-F27. We believe its cost cutting program is more credible as it progresses with structural savings, as well as its moves to reduce headcount and shed excess capacity.

Risks to our objective are slower-than-expected growth in the U.S. and global economy, increasing barriers to global trade (protectionism), a quick rise in fuel prices, increased volume and price competition, a return of union pressure on the company's Ground and Express employees, and renewed unionization moves at its Freight segment. Risks also are Congressional approval moving FedEx Express from the RLA to the NLRB and additional steps to classify Ground contractor drivers as employees. This pressure is occurring at the State level as well, given some legislative moves to declare all trucking and parcel contractors as employees. Additionally, domestic Express network restructuring could result in a service disruption, which could impact estimates. Also continued pressure on margins from growth of e-commerce volumes given its lower delivery density, or an unexpected deceleration in ecommerce growth. A rapidly deteriorating econ backdrop given rising inflation and interest rates.

Knight-Swift Transportation Holdings Inc (KNX)

Our $64 price objective is based on a 25.5x target multiple on our 2024 EPS estimate. Our target multiple is above the upper end of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it moves past trough earnings. We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete its acquisition of US Xpress, which may affect its growth outlook.

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.

Saia Inc. (SAIA)

Our $600 price objective is based on a 37x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to be benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business.

TFI International (TFII / YTFII)

Our US$154 price objective (C$207) is based on 20x our 2024 US$ EPS estimate, above the top of its 10-year one-standard deviation trading range of 11x-17x, as the company is executing on post-merger gains, transforming its North American LTL operations (post the acquisition of UPS Freight for $800 million), countered with a decelerating economic backdrop. Our target multiple is in the middle of where LTL peers (10x-30x) and US Parcel peers (10x-16x) are trending toward.

Downside risks to our price objective are weaker-than-expected economic conditions resulting in a turnover in demand, an inability for the company to raise trucking rates to offset rising costs (driver pay, insurance, depreciation, and fuel), intensifying competition in brokerage and logistics and acquisition selection and integration risk.

Upside risks to our price objective are better-than-expected pricing, more accelerated M&A moves to drive inorganic growth, or higher-than-expected share repurchases.

XPO, Inc. (XPO)
Our $132 price objective is based on a 36x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan and its purchase of Yellow real estate.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

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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
	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
	RXO, Inc.	RXO	RXO 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

Disclosures

Important Disclosures

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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