

Knight-Swift Transportation Holdings Inc

Earnings reset is a clearing event; Focus on potential cycle upturn; PO to \$64

Reiterate Rating: BUY | PO: 64.00 USD | Price: 56.98 USD

Resets outlook; Focus on the cycle upturn, USX gains

Knight-Swift cleared the deck with its 1H outlook, given the extended freight downturn. The spot market began a long slow upturn since its Aug-Oct trough, yet remains depressed. The soft market pressured KNX's 4Q results more than anticipated and sets the stage for weaker entry into 2024. Nevertheless, by resetting expectations to market levels, it is set for an upside ramp as pricing builds through 1H24 (which could allow bid season (March-May) contracts to potentially reach flat year-year), enhancing the spot market and operating leverage into latter 2024. KNX targets \$0.37-\$0.41 in 1Q24 EPS (we were \$0.54, now \$0.39) and \$0.53-\$0.57 in 2Q24 EPS (we were \$0.70, now \$0.53) as it sees truckload margins deteriorating in 1Q before improving in 2Q. We are also encouraged by its USX merger gains, as it posted positive 4Q EBIT. If it can meet its \$1.00/sh USX EPS accretion target early (before 2026), it could drive potential upside.

Earnings miss on insurance segment impact & intermodal

Knight-Swift Transportation posted adj. 4Q EPS of \$0.09, well below our \$0.47/Street's \$0.43 targets, missing its full-year \$2.10-\$2.20 range. Results were impacted by its move to exit the truck insurance business and concurrent revaluation of its accruals (reported in non-core Non-Reportable segment). This led to a \$72 million operating loss (-\$0.30/sh). Within core operations, it saw a modest seasonal lift in Truckload demand (70% of revs) in November, yet demand decelerated more than expected in December. Intermodal (5% of revs) was pressured by shipper conversion to truck, contrasting J.B. Hunt's acceleration in volumes intra-4Q. CEO Jackson continues to see pricing pressures as shippers pull forward bids to take advantage of the muted backdrop. Truckload adj. Operating Ratio was 93.9%, a 1,120 bps deterioration y-y, in-line with our target. Revenues were \$1.9 billion, up 11% y-y yet \$24 mil below our target. Adj. Operating Income was \$47 mil, down 80% y-y and \$79 mil below our target for an adj. Operating Ratio of 97.2%, a 1,260 bps deterioration y-y and 450 bps worse than our target.

PO \$64; Reiterate Buy, a key beneficiary of a cycle upturn

We lower our PO on KNX's shares to \$64 (from \$68) on 25.5x our 2024E EPS estimate (from 22x) as we move past trough earnings and thus move above the top of its 14x-25x range. We view KNX as a beneficiary of the early truck cycle upturn. We decrease our 2024/2025E EPS estimates 19%/4%, to \$2.50/\$4.25, from \$3.10/\$4.45, respectively.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.10	1.72	2.50	4.25	4.80
GAAP EPS	4.72	1.34	1.88	3.62	4.17
EPS Change (YoY)	8.1%	-66.3%	45.3%	70.0%	12.9%
Consensus EPS (Bloomberg)		2.79	4.07	4.98	
DPS	0.48	0.56	0.64	0.72	0.72
Valuation (Dec)					
P/E	11.2x	33.1x	22.8x	13.4x	11.9x
GAAP P/E	12.1x	42.5x	30.3x	15.7x	13.7x
Dividend Yield	0.8%	1.0%	1.1%	1.3%	1.3%
EV / EBITDA*	5.8x	9.4x	7.4x	5.8x	5.5x
Free Cash Flow Yield*	6.9%	0.9%	-1.3%	4.4%	5.5%

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

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Timestamp: 24 January 2024 11:51PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	68.00	64.00
2024E Rev (m)	8,285.6	7,990.8
2025E Rev (m)	8,765.6	8,525.0
2026E Rev (m)	NA	8,915.8
2024E EPS	3.10	2.50
2025E EPS	4.45	4.25
2026E EPS	NA	4.80

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Stock Data

Price	56.98 USD
Price Objective	64.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	45.73 USD - 64.35 USD
Mkt Val (mn) / Shares Out (mn)	9,231 USD / 162.0
Free Float	96.8%
Average Daily Value (mn)	114.61 USD
BofA Ticker / Exchange	KNX / NYS
Bloomberg / Reuters	KNX US / KNX.N
ROE (2024E)	5.6%
Net Dbt to Eqty (Dec-2023A)	39.7%
ESGMeter TM	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"](#).

iQprofileSM Knight-Swift Transportation Holdings Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.9%	3.2%	4.4%	13.4%	NA
Return on Equity	12.3%	4.0%	5.6%	18.4%	NA
Operating Margin	15.8%	6.1%	8.4%	12.2%	12.8%
Free Cash Flow	635	86	(117)	403	508

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	4.2x	1.8x	1.9x	1.8x
Asset Replacement Ratio	1.2x	1.5x	1.2x	1.2x	1.2x
Tax Rate	24.5%	24.4%	25.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	24.1%	39.7%	35.9%	NA	NA
Interest Cover	23.1x	3.4x	4.1x	6.7x	7.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,429	7,142	7,991	8,525	8,916
% Change	23.9%	-3.9%	11.9%	6.7%	4.6%
Gross Profit	6,110	5,790	6,403	6,852	7,166
% Change	18.9%	-5.2%	10.6%	7.0%	4.6%
EBITDA	1,768	1,100	1,387	1,768	1,884
% Change	14.4%	-37.8%	26.1%	27.5%	6.5%
Net Interest & Other Income	(72)	(68)	(133)	(134)	(125)
Net Income (Adjusted)	832	279	403	679	760
% Change	5.5%	-66.5%	44.5%	68.7%	12.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	832	279	403	679	760
Depreciation & Amortization	660	717	714	730	746
Change in Working Capital	(75)	143	(243)	(22)	(14)
Deferred Taxation Charge	31	83	3	3	3
Other Adjustments, Net	(12)	(59)	(133)	(107)	(107)
Capital Expenditure	(801)	(1,075)	(860)	(880)	(880)
Free Cash Flow	635	86	-117	403	508
% Change	-3.2%	-86.4%	NM	NM	26.1%
Share / Issue Repurchase	(324)	(14)	(79)	(79)	(79)
Cost of Dividends Paid	(78)	(91)	(103)	(115)	(114)
Change in Debt	(352)	255	(125)	(125)	(125)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	197	169	208	0	0
Trade Receivables	842	889	901	0	0
Other Current Assets	455	652	652	0	0
Property, Plant & Equipment	3,835	4,616	4,602	0	0
Other Non-Current Assets	5,623	6,545	6,545	0	0
Total Assets	10,952	12,871	12,908	0	0
Short-Term Debt	108	605	605	0	0
Other Current Liabilities	786	1,221	1,131	0	0
Long-Term Debt	1,764	2,384	2,259	0	0
Other Non-Current Liabilities	1,339	1,557	1,507	0	0
Total Liabilities	3,996	5,767	5,502	0	0
Total Equity	6,955	7,104	7,406	0	0
Total Equity & Liabilities	10,952	12,871	12,908	0	0

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

Company Sector

Road Transport/Trucking

Company Description

Knight-Swift is a truckload carrier with 19,000 tractors and sizable brokerage and Intermodal operations. The company provides dry-van, refrigerated, Intermodal (port) drayage, brokerage (truck and rail) services and less-than-truckload. The former KNX operated one of the most efficient truckload businesses, driven by its extreme focus on cost per mile, which led it to a mid-80's OR. Following its Swift merger, the company is the largest, and among the best managed, trucking companies in the US.

Investment Rationale

Knight-Swift is a leading truckload carrier, with former KNX having industry-best operating margins and management. The former KNX's fleet of 4,000 tractors was one of the most cost efficient, & its merger with SWFT (18,000 tractors) altered the truck landscape, forming the largest carrier in North America. KNX has demonstrated efficiencies following its SWFT merger. KNX remains among the best managed trucking companies in the US, alleviating pressure from decelerating growth outlooks.

Stock Data

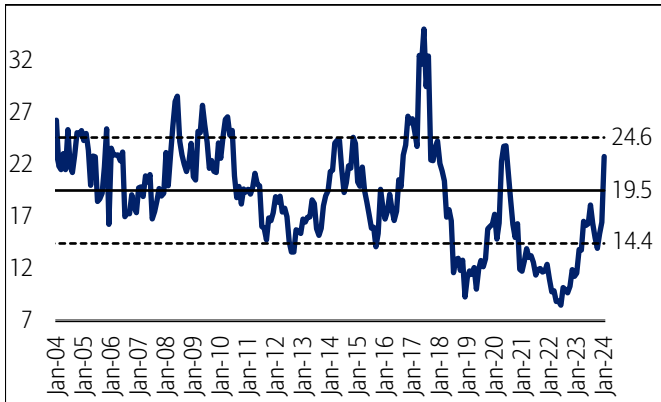
Average Daily Volume 2,011,354

Quarterly Earnings Estimates

	2023	2024
Q1	0.73A	0.39E
Q2	0.49A	0.53E
Q3	0.41A	0.72E
Q4	0.09A	0.87E

Exhibit 1: Knight Swift Forward P/E

Trading at 23x our 2024e EPS estimate, near the top of its 14x-25x range.



Source: BofA Global Research estimates and Bloomberg.

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Sets 1H24 EPS targets; Noted soft 2023 peak season

Knight-Swift targets \$0.37-\$0.41 in 1Q24 adj. EPS and \$0.53-\$0.57 in 2Q24 adj. EPS. It sees the duration and severity of recent weather impacts as a potential additional impact to its near-term targets. Its outlook assumes a slight sequential deterioration in Truckload margins in 1Q24 (we target 94.8% operating ratio, or 90 bps worse from 4Q23) and an improvement in 2Q24 (we target 94.1%, or 70 bps better sequentially, as CEO Jackson noted it would likely not meet 4Q's level either).

It expects tractor count to be down modestly in 1H24 (we expect shrinkage of 100 tractors), yet miles/tractor to be up mid-single-digit percentage (we target +6% on average in 1H24), and rate/mile to stay sequentially flat (we target flat).

The company expects 1H24 Less than Truckload (LTL) shipments/day to increase mid-to high-single digit percentage year-year (we target +5% on average) and revenue/hundredweight ex-fuel to also increase mid- to high-single digit percentage year-year (we target +6% on average). It expects 1Q Intermodal volumes to be flat year-year (we target flat) before building to a high-single digit percent growth in 2Q (we target +6%).

GAAP EPS was -\$0.07, which included \$18.5 mil in amortization of intangibles, \$2.2 mil in impairments, \$6.5 mil in legal accruals, and \$1.2 mil in acquisition-related costs.

Truckload fleet declines; LTL sees resilient growth

Truckload Revenues were \$1.4 billion (70% of Total Revenues), up 23% year-year and \$33 million above our target. Average tractors were 23,631, a 528 sequential decline and 200 below our target as the carrier moved to dispose its unseated trucks (most of which were Knight-Swift related, with less than 100 of the reduction from USX).

Revenue per Load Mile was \$2.82, down 12% year-year, in-line with our target.

Truckload adj. Operating Income was \$70 mil, down 56% year-year, yet \$1 mil better than our target, for an adj. Operating Ratio of 93.9%, 1120 bps worse year-year, yet in-line with our target. USX contributed a positive EBIT in 4Q, improving 100 bps sequentially from 3Q, yet led a 250 bps negative operating ratio impact in the quarter.

Non-Reportable & Other Operating Loss was \$78 mil (includes \$72 mil loss on Insurance exit and mark-to-market of claim accruals (which led to a full year loss of \$120 mil in Non-Reportable Income in 2023)), \$69 mil worse than our target (-\$0.32/sh).

LTL: Revenues were \$276 mil (14% of Total Revenues), up 9% year-year yet \$6 mil below our target. LTL Tons/day were up 10% year-year, above our +8% target.

Revenue/hundredweight ex-fuel was up 10% year-year, in line with our target. LTL adj. Operating Income was \$34 mil, up 14% year-year but \$1 mil below our target for an adj.



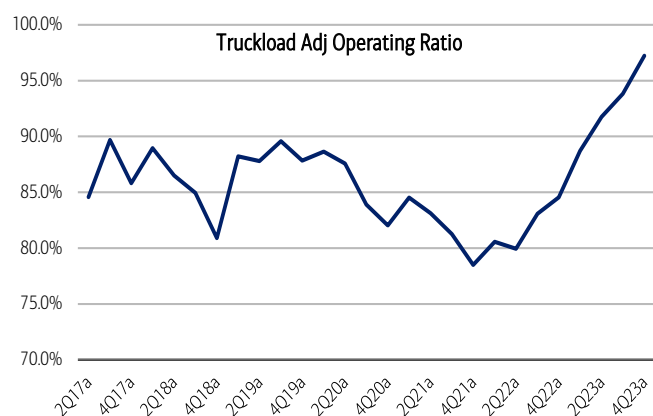
Operating Ratio of 85.5%, in line with our target. It aims to open 20 new terminals during the remainder of 2024 (it opened 5 year-to-date 1Q24) as it looks to expand its regional LTL network. It currently has 115 service centers, as compared to SAIA's 195, ODFL's 258, XPO's 294, and FedEx Freight's 344.

Logistics Revenues were \$165 mil (9% of Total Revenues), down 8% year-year and \$4 mil above our target. Logistics adj. Operating Income was 11 mil, down 52% year-year and in-line with our target. Loads were up 3% year-year, worse than our +9% target. Revenue/load (ex-fuel) declined 7% year-year, better than our -16% target.

Intermodal Revenues were \$94 mil (5% of Total Revenues), down 16% year-year and \$7 mil below our target. Intermodal Adj. Operating Loss was \$5 million, \$5 million below our breakeven target, for an adj. Operating Ratio of 104.7%, 540 bps worse than our target. Intermodal loads were up 4% year-year, worse than our +10% target.

Exhibit 2: KNX Truckload Adj. Operating Ratio

Adj. Truckload Operating Ratio was 93.9%, 1,120 bps worse year-year yet in-line with our target

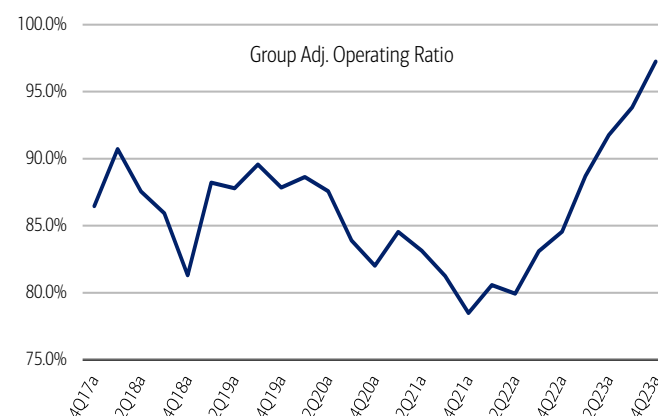


Source: BofA Global Research and company reports.

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Exhibit 3: KNX Consolidated Adj. Operating Ratio

Adj. Operating Ratio was 97.2%, a 1,260 bps deterioration y-y and 450 bps worse than our target

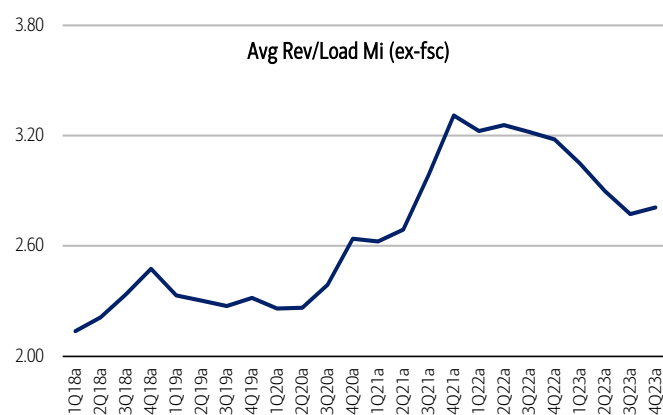


Source: BofA Global Research and company reports.

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Exhibit 4: KNX Truckload Revenue/Load Mile

Revenue per Load Mile was \$2.82, down 12% year-year yet in-line with our target.

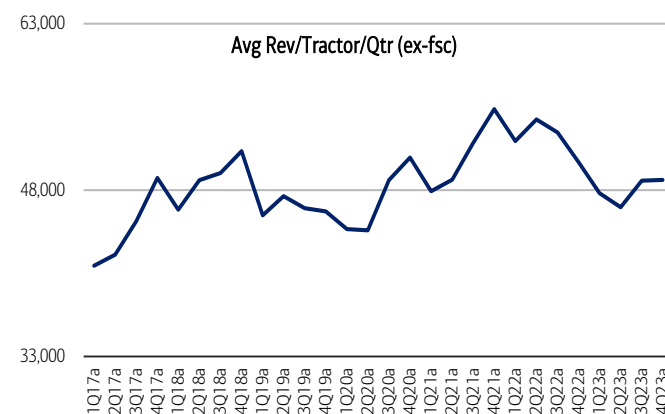


Source: BofA Global Research and company reports.

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Exhibit 5: KNX Truckload Revenue/Tractor

Revenue/tractor declined 3% year-year, better than our -6% target.



Source: BofA Global Research and company reports.

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Price objective basis & risk

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.

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



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

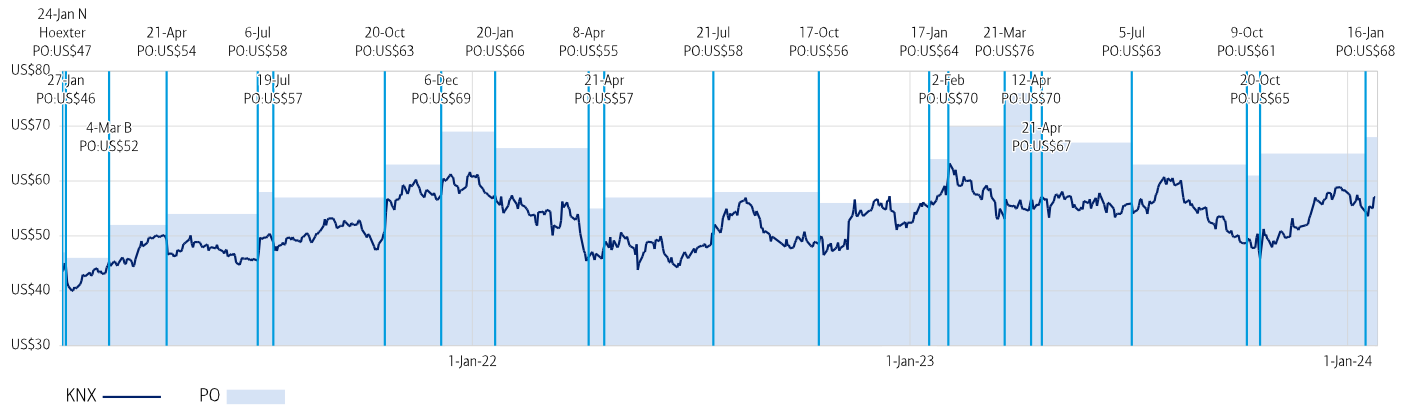
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Disclosures

Important Disclosures

Knight-Swift (KNX) 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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