

Old Dominion Freight Line

Lower to Neutral; Vols shy of target, pricing strong; PO to \$446

Rating Change: NEUTRAL | PO: 446.00 USD | Price: 430.08 USD

Lower to Neutral given elevated valuation multiple

We lower our rating on ODFL's shares to Neutral (from Buy) as we see limited upside to our PO given its elevated multiple and as volume growth has lagged our forecast. We increase our PO to \$446 (from \$443) based on 35.5x (from 35x) our 2024 EPS estimate given better-than-expected pricing from its mid-1Q24 update and earnings leverage as demand returns. Given the tight Less-than-Truckload (LTL) backdrop, we remain positive on leading carriers given potential earnings leverage as demand returns. We lower our 2024 and 2025 EPS estimates 1% each, to \$12.55 and \$14.65, from \$12.65 and \$14.70 as we lower our volume estimates.

Volumes slightly below target yet pricing still strong

Old Dominion Freight Line posted its mid-1Q24 update with Feb Less-than-Truckload (LTL) Revenues/Day +1.2%, reversing from -2.7% in January to average -0.8% 1QTD as weather conditions improved (we had estimated +4.3% in 1Q24, now +1.7%). February LTL Tons/Day declined 3.0% y-y, moderating from -5.0% in January to average -4.0% 1QTD (our estimate was +0.9% in 1Q24, now -3.4%) as Weight/Shipment declined 3.2% (averaging -3.0% 1QTD, we now project -3.0% in 1Q24) and Shipments/Day increased 0.2% (avg -1.1% 1QTD, we now estimate -0.4% in 1Q24). Although volume trends were below our estimates, LTL yields were above our projections due to continued pricing discipline. 1QTD Revenue/Hundredweight (cwt) and Rev/cwt ex-fuel were up 3.7% y-y and 7.1% y-y, respectively (BofAe was +2.2% and +6.0%, now +4.1% and +7.3%, respectively, in 1Q24). This implies Feb all-in Revenue/cwt growth of +4.6% y-y (from +2.7% in Jan) and Revenue/cwt ex-fuel growth of +7.5% y-y (from +6.7% in Jan).

Focused on delivering 100-150 bps pricing over cost

Contrary to peer XPO and Saia's focus on expanding capacity (2,000 net doors added at XPO from Yellow's auction, +13% capacity at Saia, w/ plans for 25 new terminals) and accelerating pricing (Saia's 8.7% renewal rate, XPO's 9.0% renewal rate), Old Dominion remains focused on delivering consistent 100-150 bps of pricing over cost inflation while protecting service for existing shippers. Given its longer-term strategy, its -3.0% decline in 1QTD tonnage lags peer Saia's +7.2% and XPO's +1.2%. Nevertheless, its operating model and strong service (99% on-time, 0.1% claims ratio) should deliver earnings leverage on an upswing, given its ample capacity and operating focus.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.18	11.26	12.55	14.65	16.90
GAAP EPS	12.07	11.26	12.55	14.65	16.90
EPS Change (YoY)	37.0%	-7.6%	11.5%	16.7%	15.4%
Consensus EPS (Bloomberg)			12.93	14.86	16.87
DPS	1.20	1.60	2.08	2.48	2.72
Valuation (Dec)					
P/E	35.3x	38.2x	34.3x	29.4x	25.4x
GAAP P/E	35.6x	38.2x	34.3x	29.4x	25.4x
Dividend Yield	0.3%	0.4%	0.5%	0.6%	0.6%
EV / EBITDA*	22.7x	24.3x	22.2x	19.6x	17.6x
Free Cash Flow Yield*	1.9%	1.7%	2.1%	2.5%	3.0%

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

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Timestamp: 06 March 2024 06:00AM EST

06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	443.00	446.00
2024E Rev (m)	6,247.5	6,191.2
2025E Rev (m)	6,815.6	6,783.5
2026E Rev (m)	7,407.8	7,372.2
2024E EPS	12.65	12.55
2025E EPS	14.70	14.65
2026E EPS	16.95	16.90

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Stock Data

Price	430.08 USD
Price Objective	446.00 USD
Date Established	6-Mar-2024
Investment Opinion	B-2-7
52-Week Range	295.80 USD - 452.34 USD
Mrkt Val (mn) / Shares Out (mn)	47,601 USD / 110.7
Free Float	90.4%
Average Daily Value (mn)	330.37 USD
BofA Ticker / Exchange	ODFL / NAS
Bloomberg / Reuters	ODFL US / ODFLOQ
ROE (2024E)	30.2%
Net Dbt to Eqty (Dec-2023A)	-8.3%
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 Old Dominion Freight Line

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	31.5%	26.7%	26.3%	27.9%	28.4%
Return on Equity	37.6%	31.3%	30.2%	31.1%	31.1%
Operating Margin	29.2%	28.0%	29.2%	30.7%	31.9%
Free Cash Flow	916	812	1,023	1,190	1,415

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%	-5.7%	-4.5%	-6.3%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,260	5,866	6,191	6,784	7,372
% Change	19.1%	-6.3%	5.5%	9.6%	8.7%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	2,101	1,965	2,152	2,431	2,712
% Change	27.2%	-6.5%	9.5%	13.0%	11.6%
Net Interest & Other Income	1	7	13	8	7
Net Income (Adjusted)	1,377	1,240	1,351	1,545	1,746
% Change	33.1%	-10.0%	9.0%	14.3%	13.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,365	1,240	1,351	1,545	1,746
Depreciation & Amortization	276	324	344	352	360
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	62	53	0	0	0
Other Adjustments, Net	(12)	(48)	71	90	180
Capital Expenditure	(775)	(757)	(743)	(796)	(871)
Free Cash Flow	916	812	1,023	1,190	1,415
% Change	38.3%	-11.4%	26.0%	16.4%	18.9%
Share / Issue Repurchase	(1,277)	(454)	(940)	(970)	(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	349	316	458
Trade Receivables	605	615	658	717	865
Other Current Assets	93	94	94	94	94
Property, Plant & Equipment	3,687	4,095	4,487	4,924	5,427
Other Non-Current Assets	218	274	289	304	319
Total Assets	4,839	5,512	5,877	6,354	7,162
Short-Term Debt	20	20	20	20	20
Other Current Liabilities	510	525	553	584	617
Long-Term Debt	80	60	60	60	60
Other Non-Current Liabilities	576	650	547	441	472
Total Liabilities	1,186	1,255	1,180	1,106	1,169
Total Equity	3,653	4,258	4,697	5,248	5,993
Total Equity & Liabilities	4,839	5,512	5,877	6,354	7,162

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

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. However we view its upside as limited given its premium valuation multiple.

Stock Data

Average Daily Volume 768,153

Quarterly Earnings Estimates

	2023	2024
Q1	2.58A	2.68E
Q2	2.65A	3.19E
Q3	3.09A	3.40E
Q4	2.94A	3.29E

Price objective basis & risk

Old Dominion Freight Line (ODFL)

Our \$446 price objective is based on a 35.5x 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 potential return of Yellow capacity could lead to increased freight capacity and negative pricing pressures.

Upside risks to our PO are stronger than expected pricing acceleration. A faster-than anticipated recovery in macro demand could lead to more robust earnings given the high operating leverage built into ODFL's operating model. The sudden exit of a peer operator could potentially drive additional tightness in LTL capacity, leading to higher-than-expected pricing.

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
	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
	Old Dominion Freight Line	ODFL	ODFL 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



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
RSTR	Norfolk Southern	NSC	NSC 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

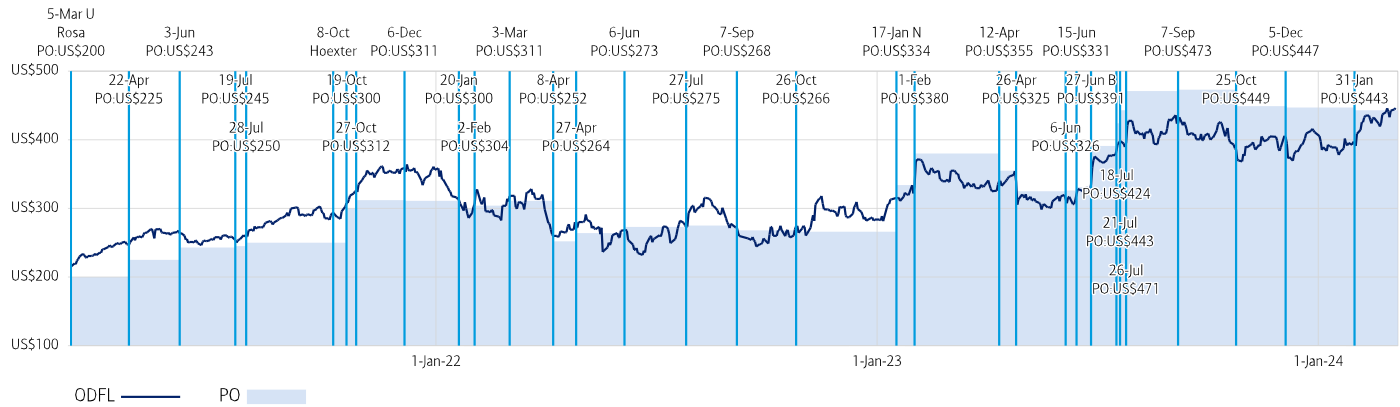
Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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Old Dominion (ODFL) Price Chart

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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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