

Knight-Swift Transportation Holdings Inc

Lowers '23 tgt on spot rates, USX losses, int exp; Yet rates are building base, \$63 PO

Reiterate Rating: BUY | PO: 63.00 USD | Price: 55.85 USD

Earnings miss as volume & pricing remain under pressure

Knight-Swift Transportation posted 2Q23 adj EPS of \$0.49, down 65% y-y and below our \$0.52/Street's \$0.54 forecast. All segments were worse than expected except Less-than-Truckload (LTL, 17% of revenues, now its 2nd biggest segment). Truckload (61% of revenues) adj operating ratio of 91.8% deteriorated 1,290 bps y-y (vs our 1,100-bps estimate) as adj operating income fell to \$68 mil (below our \$78 mil estimate) from \$207 mil a year prior. Intermodal (7% of revs) posted a \$7 mil operating loss, below our +\$5 mil forecast, as ex-fuel yields (revenue/load) declined 25% y-y, worse than our -11% forecast, offsetting a 5% increase in loads (which surpassed our -6% forecast). Brokerage (8% of revenues) faced volume pressures as loads fell 35% y-y (worse than our -17% forecast). The company abstained from calling any type of inflection, yet we expect year-year volume and yield declines to moderate as comps gradually improve into 2H. Revenues were \$1.6 bil, down 21% y-y and \$36 mil below our forecast. Adj operating income was \$115 mil, down 66% y-y and \$15 mil below our forecast for an adj operating ratio of 91.8% (100 bps worse than our estimate).

Lowers 2023 EPS targets, yet spot rates building base

Knight Swift lowered its full year EPS target to \$2.10-\$2.30 from \$3.35-\$3.55 prior (we were \$2.50, now \$2.10), as it now incorporates \$0.25-\$0.30/sh losses related to its USX acquisition, truck rate declines outpaced its targets, and cost take outs turned more challenging. It now targets truck rate/mile to decrease high-single to low double digits, from an upper single digit decline. The bottom of its range represents its lowest EPS since its 2017 merger with SWFT. CEO Dave Jackson expects volumes to inflect positive in 4Q as it already sees the stirrings of non-contract freight opportunities. It remains confident on achieving cost and revenue synergies on its USX acquisition, targeting USX to be breakeven by 1H24 and accretive later in 2024.

A leading trucker into the inflection; Reiterate Buy

We reiterate our Buy on KNX's shares and maintain our \$63 PO, on 18.5x our 2024e EPS (from 17.5x) as we move past trough earnings into a potential freight inflection. While near-term earnings remain pressured, we expect significant positive leverage for KNX given its leading operating focus. We decrease our 2023 and 2024 EPS estimates 16% and 7%, to \$2.10 and \$3.35, from \$2.50 and \$3.60, respectively, on margin pressures.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.72	5.10	2.10	3.35	4.30
GAAP EPS	4.44	4.72	1.72	2.97	3.91
EPS Change (YoY)	72.9%	8.1%	-58.8%	59.5%	28.4%
Consensus EPS (Bloomberg)			2.68	3.77	5.03
DPS	0.38	0.48	0.56	0.64	0.72
Valuation (Dec)					
P/E	11.8x	11.0x	26.6x	16.7x	13.0x
GAAP P/E	12.6x	11.8x	32.5x	18.8x	14.3x
Dividend Yield	0.7%	0.9%	1.0%	1.1%	1.3%
EV / EBITDA*	6.5x	5.7x	8.8x	7.0x	6.1x
Free Cash Flow Yield*	7.3%	7.0%	-5.1%	1.2%	4.1%

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

21 July 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	6,348.8	6,998.0
2024E Rev (m)	6,482.3	7,786.4
2025E Rev (m)	6,891.8	8,170.6
2023E EPS	2.50	2.10
2024E EPS	3.60	3.35
2025E EPS	4.40	4.30

Ken Hoexter

Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

Adam Roszkowski, CFA

Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

Nathan Ho, CFA

Research Analyst
BofAS
nathan.m.ho@bofa.com

Stock Data

Price	55.85 USD
Price Objective	63.00 USD
Date Established	5-Jul-2023
Investment Opinion	B-1-7
52-Week Range	45.63 USD - 64.35 USD
Mkt Val (mn) / Shares Out (mn)	9,034 USD / 161.8
Average Daily Value (mn)	103.26 USD
BofA Ticker / Exchange	KNX / NYS
Bloomberg / Reuters	KNX US / KNX.N
ROE (2023E)	4.8%
Net Dbt to Eqty (Dec-2022A)	24.1%
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"](#).

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Timestamp: 21 July 2023 01:16AM EDT

iQprofileSM Knight-Swift Transportation Holdings Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.8%	8.9%	3.9%	5.8%	14.0%
Return on Equity	12.7%	12.3%	4.8%	7.1%	17.5%
Operating Margin	17.1%	15.8%	7.4%	10.4%	12.2%
Free Cash Flow	656	635	(457)	107	370

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.7x	1.5x	1.8x	1.9x
Asset Replacement Ratio	0.9x	1.2x	1.5x	1.3x	1.3x
Tax Rate	23.7%	24.5%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	29.2%	24.1%	24.0%	21.9%	NA
Interest Cover	48.4x	23.1x	4.4x	5.8x	7.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,998	7,429	6,998	7,786	8,171
% Change	28.3%	23.9%	-5.8%	11.3%	4.9%
Gross Profit	5,138	6,110	5,738	6,389	6,760
% Change	29.0%	18.9%	-6.1%	11.4%	5.8%
EBITDA	1,546	1,768	1,146	1,454	1,660
% Change	40.3%	14.4%	-35.2%	26.8%	14.2%
Net Interest & Other Income	10	(72)	(71)	(108)	(110)
Net Income (Adjusted)	789	832	337	528	670
% Change	69.3%	5.5%	-59.5%	56.7%	26.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	789	832	337	528	670
Depreciation & Amortization	578	660	644	644	660
Change in Working Capital	(170)	(75)	(377)	(128)	(15)
Deferred Taxation Charge	40	31	0	3	3
Other Adjustments, Net	(46)	(12)	(103)	(79)	(67)
Capital Expenditure	(534)	(801)	(958)	(860)	(880)
Free Cash Flow	656	635	-457	107	370
% Change	64.6%	-3.2%	NM	NM	245.0%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	261	197	459	383	0
Trade Receivables	911	842	864	838	0
Other Current Assets	242	455	944	944	0
Property, Plant & Equipment	3,555	3,835	3,999	4,056	0
Other Non-Current Assets	5,686	5,623	5,591	5,591	0
Total Assets	10,656	10,952	11,857	11,812	0
Short-Term Debt	298	108	115	115	0
Other Current Liabilities	777	786	1,256	918	0
Long-Term Debt	1,872	1,764	2,073	1,948	0
Other Non-Current Liabilities	1,165	1,339	1,224	1,174	0
Total Liabilities	4,112	3,996	4,667	4,154	0
Total Equity	6,543	6,955	7,191	7,658	0
Total Equity & Liabilities	10,656	10,952	11,857	11,812	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

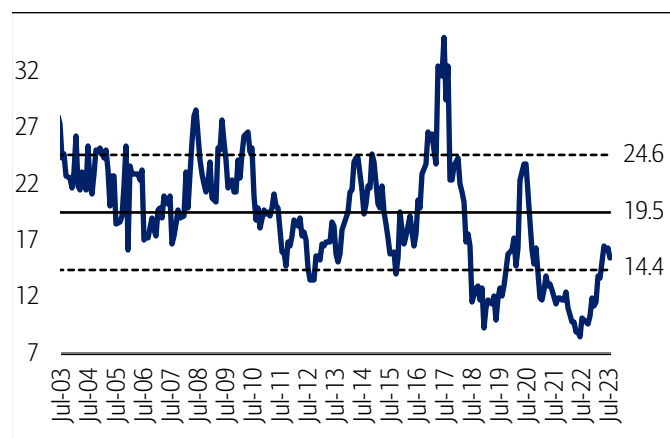
Average Daily Volume 1,848,955

Quarterly Earnings Estimates

	2022	2023
Q1	1.35A	0.73A
Q2	1.41A	0.49A
Q3	1.27A	0.35E
Q4	1.07A	0.53E

Exhibit 1: Knight-Swift Transportation Forward P/E

Shares are trading 15.5x, near the bottom of its 14x-25x range.



Source: BofA Global Research estimates and Bloomberg.

BofA GLOBAL RESEARCH

Lowers 2023 EPS target to \$2.10-\$2.30

Knight-Swift Transportation lowered its 2023 EPS target to \$2.10-\$2.30 from \$3.35-\$3.55 (and originally \$4.05-\$4.25 in 4Q22). Its targets truck revenue per mile to decline between high-single-digits to low double-digits from high-single digits previously (we target -10%). It lowered its target on Intermodal to breakeven for the full year (we estimate 2023 operating ratio of 100%) from previously achieving a full-year operating ratio of mid-90%. It attributed its more conservative earnings view to weaker-than-expected demand as well as more challenging costs.

While freight softness continued through 2Q and into 3Q, it expects a modest seasonal uplift in 4Q as it sees demand for non-contract freight opportunities as well as the return of historical peak season patterns

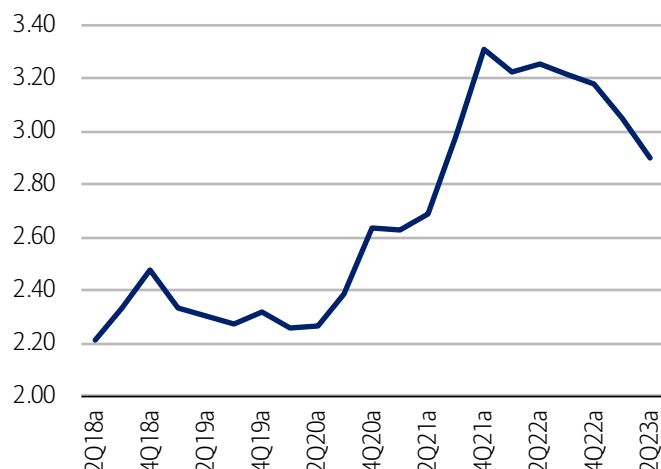
GAAP EPS was \$0.39 which included a \$17 mil charge on amortization of intangibles (-\$0.10/sh), \$1 million in accrual charges (-\$0.01/sh), \$5 million in transaction fees (-\$0.03/sh), \$3 million change in fair value of deferred earnout (+\$0.02/sh) and \$5 million in tax benefit adjustments (+\$0.03/sh).

Truckload impacted by rising rate pressures

Truckload revenues were \$954 million, down 20% year-year and \$22 mil below our forecast. The below target revenues were primarily due to an 11% year-year decline in revenue/loaded mile (we targeted -10%) with contract freight pricing renewing lower after the end of bid season. The weakness was led by its irregular route segment (~80% of trucking) while dedicated rates (20% of trucking) slightly improved. Equipment utilization was also pressured as empty miles accounted for 15.2% of total miles driven (vs our 15.0% target). Truckload adjusted operating ratio was 91.8%, a 1,290-bps deterioration year-year (worse than our forecast for 1,100 bps deterioration) as the carrier faced increased cost challenges.

Exhibit 2: Knight-Swift Truckload Revenue/Loaded Mile

Revenue/loaded mile declined 11%, worse than our -10% target.



Source: BofA Global Research estimates and company reports

BofA GLOBAL RESEARCH

Exhibit 3: Knight-Swift Truckload Adj Operating Ratio

Adj truckload operating ratio was 91.8%, 1,290 bps deterioration y-y and 190 bps worse than our target



Source: BofA Global Research estimates and company reports

BofA GLOBAL RESEARCH

Less-than-Truckload a bright spot, 2nd biggest segment

Less-than-truckload (LTL) revenues were \$267 million, down 6% year-year but \$17 million above our forecast as tonnage declines were better than our forecast (down 4% year-year vs our -10% target). Yields (revenue/hundredweight) ex-fuel were up 7% year-year, in line with our forecast. CEO Jackson highlighted volume gains exiting the quarter given rising service fears at peer carrier (Yellow) and expects demand to remain relatively stable in 2H23. LTL operating income was \$34 million, down 28% year-year, yet \$3 million above our forecast.

Intermodal and Logistics soft on weak freight demand

Intermodal revenues were \$104 million, down 21% year-year and \$8 million below our target. Loads were up 4% year-year, well above our -6% target yet revenue/load was down 25% year-year, worse than our -11% forecast. The increased pricing pressure led to margin compression with Intermodal operating ratio coming in at 106.4%, a 1,710-bps deterioration year-year and 1,100 bps worse than our forecast.

Brokerage revenues were \$120 million, down 52% year-year and \$26 million below our forecast as loads declined 35% year-year while revenue/load was down 27% year-year. Gross margins compressed 500 bps year-year to 19.4% due to stabilizing cost of capacity yet declining contractual pricing. Brokerage adj operating ratio was 91.6%, a 940-bps deterioration year-year yet 30 bps better than our forecast.

Price objective basis & risk

Knight-Swift Transportation Holdings Inc (KNX)

Our \$63 price objective is based on a 18.5x target multiple on our 2024 EPS estimate. Our target multiple is above the bottom of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it nears trough earnings (led by pressure on economic growth and truck spot rate declines). 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 of AAA Cooper and MME, 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 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
	Scorpio Tankers Inc.	STNG	STNG 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				
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	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



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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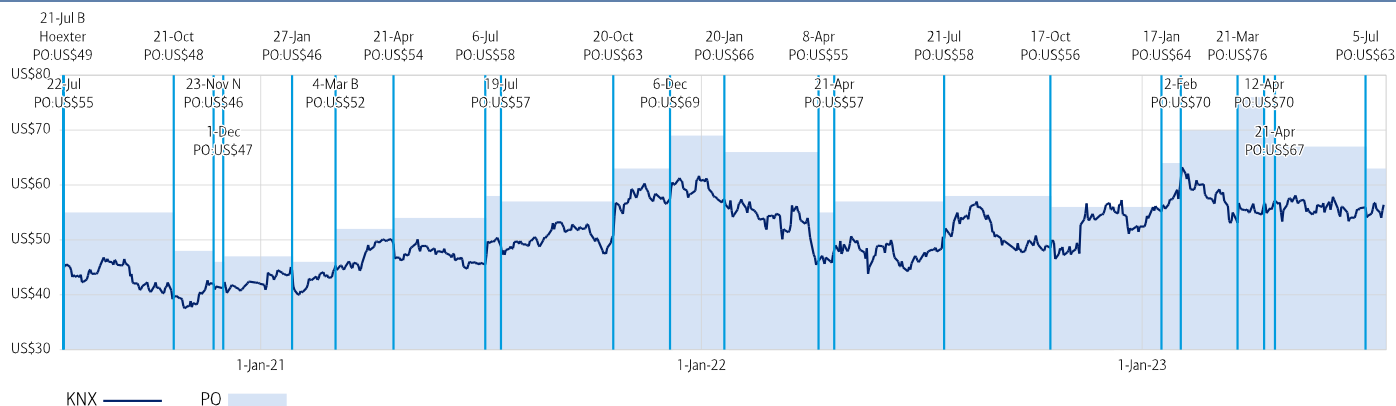
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Disclosures

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 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%

^{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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