

## J.B. Hunt Transport Services

# Intermodal momentum led by surprise 4Q peak; Coiled spring in wait; PO to \$216

Reiterate Rating: BUY | PO: 216.00 USD | Price: 196.94 USD

## Intermodal volumes accelerate; costs still a drag near term

J.B. Hunt Transport Services (JBHT) posted normalized 4Q23 EPS of \$1.86, down 22% yr-yr, above our \$1.70 target and Street's \$1.74. GAAP EPS of \$1.47 included \$53.4 mil (\$0.39/sh) of pre-tax charges for insurance-related items (out of period claims accruals). Intermodal President Darren Field noted JBHT benefited from a surprise 4Q Intermodal peak that neither it nor customers expected. Intermodal loads grew 6.5% yr-yr in 4Q23, above our 4.3% target, with monthly loads up 6% in Oct/Nov, accelerating to 8% in Dec (above our 2%-4%-7% target). Mr. Field anticipates a challenged freight market in '24, particularly given weather-to-date in 1Q24, although recognized that 1H comps are relatively easier. Intermodal revenue/load was \$3,029, down 13% year-year, yet better than our -15% target, supported by favorable mix from Transcon loads (+13% yr-yr), which have longer lengths of haul vs Eastern loads (down 2% yr-yr). JBHT posted an adj Intermodal operating ratio of 91.0%, 50 bps better than our target, and 80 bps better sequentially, when it posted its weakest margin in 21 years (3Q23 vs. 3Q02). Mr. Field sees potential for share gains on improved rail service and for volume gains to lead pricing. However, JBHT does not expect bid season gains to aid pricing until 3Q,

## Intermodal leads core beat

Revenues were \$3.3 billion, down 9.5% year-year, but \$38 million above our target. Adj. Operating Income was \$257 million, down 26% year-year, \$7 million above our target (\$0.05/sh above), for an Adj. Operating ratio of 92.2%, a 170 bps deterioration year-year, but 20 bps better than our target. Core results in Intermodal (\$0.10/sh better) and Final Mile (\$0.02/sh better) led the beat, though were balanced by slight misses in Truckload (JBT, -\$0.03/sh), Dedicated Contract Services (DCS, -\$0.02/sh worse), and Integrated Capacity Solutions (ICS; -\$0.01/sh). DCS customer retention rates fell to 93% 4Q23 from 94% in 3Q23 on fleet downsizing and account losses. It still expects to sell 1,000-1,200 new DCS trucks in 2024, half of which we expect to be offset by fleet reductions.

## Reiterate Buy; PO to \$216

We increase our PO for JBHT to \$216 (from \$212) on 26.5x our 2024e EPS (from 26.0x). Our target is above its 16x-23x range as earnings rebound from 2023's trough. We increase our 2025e EPS 1%, to \$10.35 from \$10.20 ('24e remains \$8.15; we launch '26e at \$11.90), as load growth accelerates and it benefits from contract repricing in 3Q.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.79	7.20	8.15	10.35	11.90
GAAP EPS	9.21	6.97	8.15	10.35	11.90
EPS Change (YoY)	37.1%	-26.5%	13.2%	27.0%	15.0%
Consensus EPS (Bloomberg)			8.00	9.54	10.92
DPS	1.60	1.68	1.72	1.80	1.88
Valuation (Dec)					
P/E	20.1x	27.4x	24.2x	19.0x	16.5x
GAAP P/E	21.4x	28.3x	24.2x	19.0x	16.5x
Dividend Yield	0.8%	0.9%	0.9%	0.9%	1.0%
EV / EBITDA*	10.8x	12.5x	11.2x	9.7x	8.9x
Free Cash Flow Yield*	1.1%	-0.5%	2.6%	1.2%	3.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Timestamp: 18 January 2024 10:44PM EST

18 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	212.00	216.00
2024E Rev (m)	13,536.8	13,567.1
2025E Rev (m)	14,690.4	14,717.6
2026E Rev (m)	NA	15,898.7
2025E EPS	10.20	10.35
2026E EPS	NA	11.90
2024E DPS	1.76	1.72

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### Stock Data

Price	196.94 USD
Price Objective	216.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	163.66 USD - 209.21 USD
Mrkt Val (mn) / Shares Out (mn)	20,593 USD / 104.6
Free Float	79.1%
Average Daily Value (mn)	139.66 USD
BofA Ticker / Exchange	JBHT / NAS
Bloomberg / Reuters	JBHT US / JBHT.OQ
ROE (2024E)	19.3%
Net Dbt to Eqty (Dec-2023A)	37.1%
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> J.B. Hunt Transport Services

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.4%	12.1%	12.3%	3.5%	15.3%
Return on Equity	30.4%	19.4%	19.3%	22.8%	22.5%
Operating Margin	9.5%	8.2%	8.8%	9.8%	10.4%
Free Cash Flow	236	(104)	541	249	764

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.3x	1.8x	1.8x	1.8x
Asset Replacement Ratio	2.4x	2.5x	1.2x	1.5x	1.6x
Tax Rate	24.4%	23.7%	24.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	33.0%	37.1%	28.7%	28.7%	14.9%
Interest Cover	28.2x	17.3x	16.4x	18.8x	23.7x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,814	12,830	13,567	14,718	15,899
% Change	21.7%	-13.4%	5.7%	8.5%	8.0%
Gross Profit	14,814	12,830	13,567	14,718	15,899
% Change	21.7%	-13.4%	5.7%	8.5%	8.0%
EBITDA	2,058	1,785	1,986	2,302	2,517
% Change	28.4%	-13.3%	11.3%	15.9%	9.4%
Net Interest & Other Income	(50)	(61)	(73)	(74)	(70)
<b>Net Income (Adjusted)</b>	<b>1,031</b>	<b>752</b>	<b>842</b>	<b>1,055</b>	<b>1,196</b>
<b>% Change</b>	<b>35.5%</b>	<b>-27.1%</b>	<b>12.0%</b>	<b>25.3%</b>	<b>13.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,031	752	842	1,055	1,196
Depreciation & Amortization	645	738	798	830	862
Change in Working Capital	(148)	52	(109)	(5)	45
Deferred Taxation Charge	175	66	0	0	0
Other Adjustments, Net	74	137	0	0	0
Capital Expenditure	(1,541)	(1,849)	(990)	(1,240)	(1,340)
<b>Free Cash Flow</b>	<b>236</b>	<b>-104</b>	<b>541</b>	<b>249</b>	<b>764</b>
<b>% Change</b>	<b>-14.6%</b>	<b>NM</b>	<b>NM</b>	<b>-54.0%</b>	<b>207.1%</b>
Share / Issue Repurchase	(300)	(160)	(275)	(300)	(400)
Cost of Dividends Paid	(167)	(174)	(178)	(184)	(189)
Change in Debt	(33)	460	35	(145)	(145)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	52	53	282	345	427
Trade Receivables	1,528	1,335	1,578	1,746	1,880
Other Current Assets	588	711	711	711	711
Property, Plant & Equipment	4,980	5,775	5,968	6,378	6,856
Other Non-Current Assets	595	678	678	678	678
<b>Total Assets</b>	<b>7,742</b>	<b>8,553</b>	<b>9,217</b>	<b>9,217</b>	<b>10,552</b>
Short-Term Debt	0	250	250	250	250
Other Current Liabilities	1,568	1,529	1,623	1,623	1,855
Long-Term Debt	1,262	1,326	1,361	1,361	1,071
Other Non-Current Liabilities	1,246	1,343	1,347	1,347	1,355
<b>Total Liabilities</b>	<b>4,076</b>	<b>4,449</b>	<b>4,581</b>	<b>4,581</b>	<b>4,531</b>
<b>Total Equity</b>	<b>3,667</b>	<b>4,104</b>	<b>4,635</b>	<b>4,635</b>	<b>6,020</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,742</b>	<b>8,553</b>	<b>9,217</b>	<b>9,217</b>	<b>10,552</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## 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 should see accelerating earnings upside as volumes growth return to its fixed cost network. As a leading multimodal carrier across Intermodal, Dedicated, Brokerage, and Final Mile, we view the carrier as an early cycle beneficiary as the freight cycle inflects and pricing begins trending with its accelerating volumes. 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

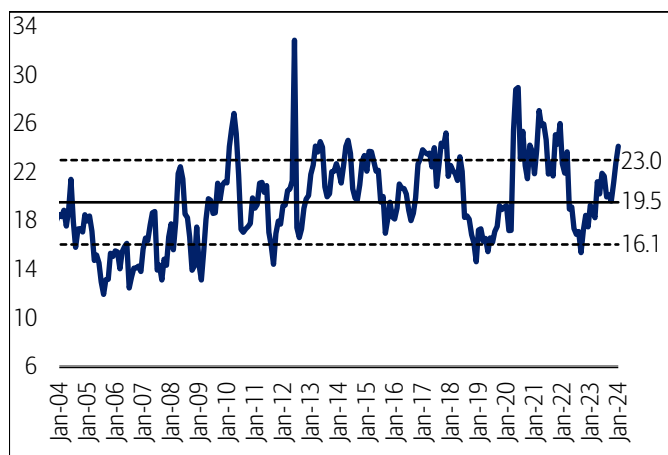
Average Daily Volume 709,144

## Quarterly Earnings Estimates

	2023	2024
Q1	1.89A	1.59E
Q2	1.81A	1.94E
Q3	1.64A	2.17E
Q4	1.86A	2.45E

**Exhibit 1: JBHT Forward P/E**

JBHT shares are trading at 24x 2024e EPS< above its 16x-23x range.



Source: BofA Global Research estimates and Bloomberg.

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**Intermodal beats on peak; demand gains for 9<sup>th</sup> month**

Intermodal revenues were \$1.6 billion, down 7% year-year, yet \$64 million above our target. Volumes and yields were both above our targets. Intermodal loads were up 6% year-year, above our +4% target, as volumes accelerated intra-4Q23 (loads were up 6% in October and November, accelerating to +8% in December), showing improving year-year trends for the 9<sup>th</sup> consecutive month. Revenue/load including fuel was down 13% year-year, better than our -15% target (yields were down 10% ex-fuel), as mix was a tailwind for the quarter. J.B. Hunt's longer-haul Transcontinental traffic was up 13% year-year compared to a 2% decline in its Eastern network volumes.

Intermodal adj. operating income was \$146 million, down 28% year-year, \$13 million above our target, for an adj operating ratio of 91.0%, a 250 bps deterioration year-year yet 50 bps better than our target. CFO Kuhlman highlighted that rising insurance premiums could continue to pressure costs despite its record best safety metrics as claim awards continue to surge higher.

We target 7-8% load growth to continue in 1H24 (on relatively easier comps) before decelerating to mid-single digits in 2H24. Alternatively, we expect revenue/load to shift from negative mid-single digits to slight positive in 2H. With rising costs (and weather), we expect Intermodal margins will deteriorate slightly in 1Q24 (92.0% in 1Qe) before improving to 89% average in 2H24.

**Dedicated growth challenged given fleet shrinkage**

Dedicated revenues were \$884 million, down 3% year-year and \$16 million below our target. Dedicated revenue/truck (including fuel) was up 7% year-year, above our +2% target. However, the fleet ended the quarter at a smaller level than we expected at 13,252 tractors (vs. our 13,359 target) as it posted a net 7 reduction in 4Q23. Customer retention fell to 93% (from 94% last quarter) driven by fleet downsizing (and to a lesser extent account losses). EVP Dedicated Contract Services Nick Hobbs noted that customer churn was ~9% in 2023, and it has visibility on more fleet loss in 2024. Nevertheless, it aims to backfill a portion of that lost capacity with the sale of 1,000-1,200 new tractors through its pipeline. Dedicated adj. operating income was \$106 million, up 8% year-year, but \$2 million below our target, for an adj. operating ratio of 88.0%, a 120 bps improvement year-year and in-line with our target.

**Brokerage still pressured; Focus on Final-Mile rev quality**

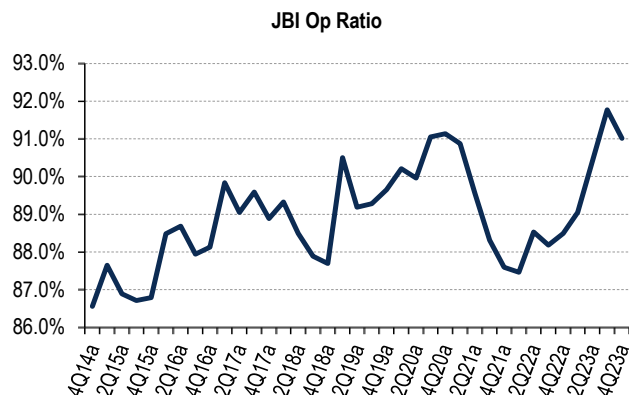
Brokerage revenues were \$364 million, down 25% year-year and \$15 million below our target. Brokerage loads fell 12% year-year and revenue/load fell 15% year-year. The segment generated an adj. operating loss of \$15 mil, or \$1 million worse than we



expected, as truckload demand and rates remain pressured. The company aims to cull its less profitable freight and right size ops through attrition to improve returns. Final-Mile revenues were \$243 million, down 9% year-year, and \$16 million above our target. Final-Mile adj. operating income was \$16 million, down 4% year-year yet \$2 million above our target, for an adj. operating ratio of 93.6%, 20 bps better than our target.

#### Exhibit 2: J.B. Hunt Intermodal Operating Ratio

Intermodal adj. operating ratio was 91.0%, 50 bps better than our target.

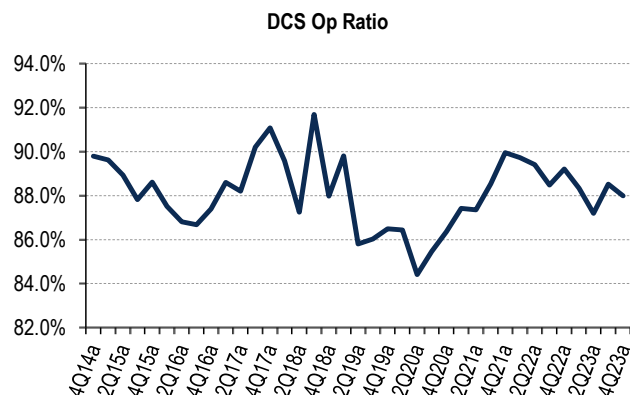


Source: BofA Global Research and company reports.

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#### Exhibit 3: J.B. Hunt Dedicated Operating Ratio

Dedicated adj. operating ratio was 88.0%, in-line with our target.

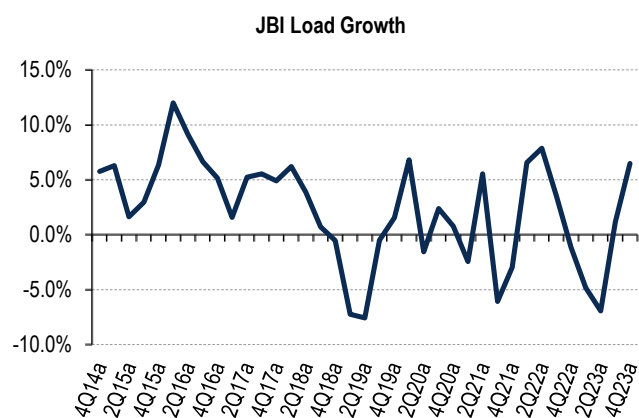


Source: BofA Global Research and company reports.

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#### Exhibit 4: J.B. Hunt Intermodal Load Growth

Intermodal loads grew 6% year-year, above our +4% target.

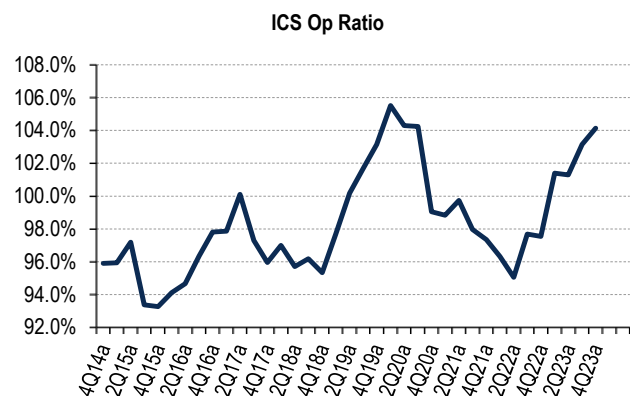


Source: BofA Global Research and company reports.

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#### Exhibit 5: J.B. Hunt Brokerage Operating Ratio

Brokerage adj. operating ratio was 104.1%, 40 bps worse than our target.



Source: BofA Global Research and company reports.

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## Price objective basis & risk

### J.B. Hunt Transport Services (JBHT)

Our \$216 price objective is based on a 26.5x target multiple of our 2024E EPS estimate. Our target multiple is above its 16x-23x one standard deviation trading band as earnings trough in '23 and begin to recover in '24. We expect pricing pressure, a lagging indicator to volumes, to be somewhat countered with improved rail 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. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network.

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
<b>BUY</b>				
	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
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>NEUTRAL</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	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
	UPS	UPS	UPS US	Ken Hoexter
<b>UNDERPERFORM</b>				
	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



## iQmethod<sup>SM</sup> 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> 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.

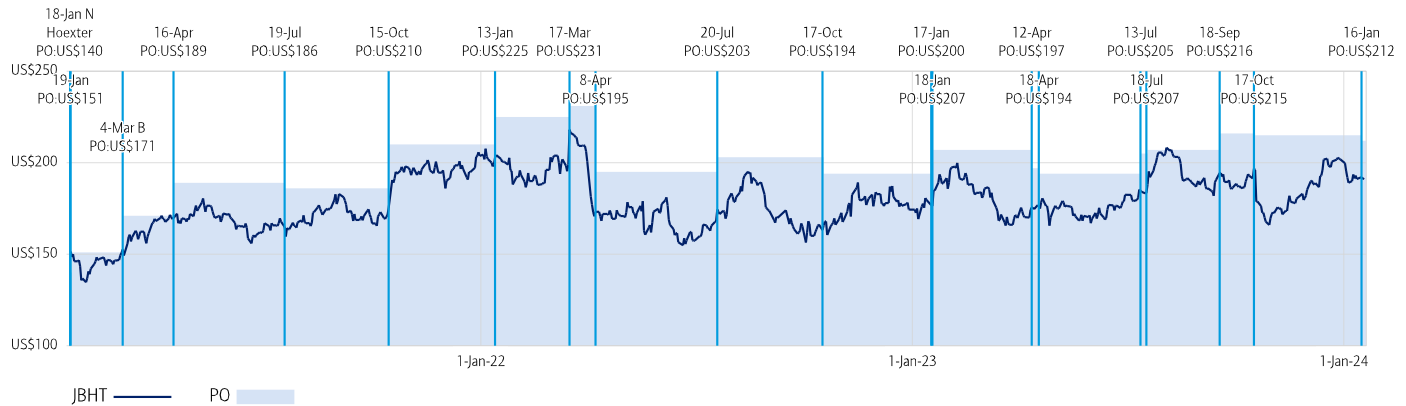
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# Disclosures

## Important Disclosures

### 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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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