

Knight-Swift Transportation Holdings Inc

USX integration leads beat on results; Primed for earnings leverage; PO to \$65

Reiterate Rating: BUY | PO: 65.00 USD | Price: 45.88 USD

Results beat as USX integration well ahead of schedule

Knight-Swift Transportation reported 3Q23 adj. EPS of \$0.41, down 67% year-year yet above our \$0.33 forecast/Street's \$0.36. The better-than-expected results were driven by the carrier's accelerated integration of US Xpress (27% of Knight-Swift truck fleet after its July merger) as it pulled out costs and lowered USX's spot exposure to 15% from 45%. Although the trucking backdrop remained muted, it decreased USX's cost per mile in the mid-single digit range and increased rates at a low-single digits pace from 2Q23. As it achieves synergies ahead of schedule, Knight-Swift sees a smaller negative EPS impact from USX in 2H (-\$0.10 in 3Q and ~-\$0.05 in 4Q, from its prior 2H target of ~\$0.25-\$0.30 impact). Given KNX's past success in integrating Swift, we view its path to ramp USX returns as a positive catalyst to drive earnings leverage from its ~\$2.15 2023 EPS baseline. The company aims to achieve positive USX EBIT by 1H24, EPS accretion by 2024, and \$1.00 in incremental EPS by 2026. In 3Q23, its Truckload adj. operating ratio (KNX, SWFT, USX combined) was 94.9%, 160 bps better than our forecast given its cost and rate optimization moves, and Logistics adj operating ratio was 93.3%, 60 bps better than our forecast, as USX brokerage business flipped to positive returns in 3Q.

Tightens 2023 EPS target to \$2.10-\$2.20 on soft macro

Knight-Swift lowered the top of its 2023 EPS target range to \$2.10-\$2.20 from \$2.10-\$2.30 (we were \$2.05, now \$2.15). CEO Dave Jackson is confident for an eventual truckload market upturn, driven by carrier exits, but near-term expects a muted peak season with minimal improvements to rates. Revenues were \$2.0 billion, up 6% year-year and \$97 million above our forecast. Adj. operating income was \$109 million, down 61% year-year, yet \$12 million above our forecast. Adj. operating ratio was 93.8%, a 1,070 bps deterioration year-year, yet 70 bps better than our forecast.

Reiterate Buy, PO to \$65; remains a top truckload pick

We reiterate our Buy on Knight-Swift's shares and raise our PO to \$65 (from \$61) as we hold our 18.5x 2024 target P/E multiple on increased estimates. We remain positive on its position as a leading operator in the truckload group and expect it to benefit from an inflection the truck cycle. We increase our 2023, 2024 and 2025 EPS estimates 5%, 6%, and 13%, to \$2.15, \$3.50, and \$4.80, from \$2.05, \$3.30, and \$4.25, respectively.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.72	5.10	2.15	3.50	4.80
GAAP EPS	4.44	4.72	1.88	3.33	4.63
EPS Change (YoY)	72.9%	8.1%	-57.8%	62.8%	37.1%
Consensus EPS (Bloomberg)			2.08	3.07	4.45
DPS	0.38	0.48	0.56	0.64	0.72
Valuation (Dec)					
P/E	9.7x	9.0x	21.3x	13.1x	9.6x
GAAP P/E	10.3x	9.7x	24.4x	13.8x	9.9x
Dividend Yield	0.8%	1.0%	1.2%	1.4%	1.6%
EV / EBITDA*	5.5x	4.8x	7.1x	5.4x	4.5x
Free Cash Flow Yield*	8.8%	8.6%	5.9%	3.3%	7.6%

* For full definitions of *IQmethod*SM measures, see page 5.

20 October 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	61.00	65.00
2023E Rev (m)	6,997.8	7,205.8
2024E Rev (m)	7,815.4	8,523.9
2025E Rev (m)	8,190.3	8,967.7
2023E EPS	2.05	2.15
2024E EPS	3.30	3.50
2025E EPS	4.25	4.80

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Stock Data

Price	45.88 USD
Price Objective	65.00 USD
Date Established	20-Oct-2023
Investment Opinion	B-1-7
52-Week Range	45.63 USD - 64.35 USD
Mrkt Val (mn) / Shares Out (mn)	7,421 USD / 161.8
Average Daily Value (mn)	96.55 USD
BofA Ticker / Exchange	KNX / NYS
Bloomberg / Reuters	KNX US / KNX.N
ROE (2023E)	4.9%
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: 20 October 2023 01:03AM 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%	3.8%	5.6%	14.3%
Return on Equity	12.7%	12.3%	4.9%	7.5%	19.6%
Operating Margin	17.1%	15.8%	7.4%	10.2%	12.7%
Free Cash Flow	656	635	435	245	562

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.7x	4.3x	2.0x	1.9x
Asset Replacement Ratio	0.9x	1.2x	1.5x	1.2x	1.2x
Tax Rate	23.7%	24.5%	24.8%	25.0%	25.0%
Net Debt-to-Equity Ratio	29.2%	24.1%	25.5%	21.4%	NA
Interest Cover	48.4x	23.1x	4.2x	5.5x	7.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,998	7,429	7,206	8,524	8,968
% Change	28.3%	23.9%	-3.0%	18.3%	5.2%
Gross Profit	5,138	6,110	5,829	6,824	7,208
% Change	29.0%	18.9%	-4.6%	17.1%	5.6%
EBITDA	1,546	1,768	1,198	1,589	1,871
% Change	40.3%	14.4%	-32.2%	32.6%	17.8%
Net Interest & Other Income	10	(72)	(72)	(127)	(129)
Net Income (Adjusted)	789	832	347	557	756
% Change	69.3%	5.5%	-58.3%	60.4%	35.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	789	832	347	557	756
Depreciation & Amortization	578	660	699	720	736
Change in Working Capital	(170)	(75)	527	(130)	(20)
Deferred Taxation Charge	40	31	(7)	3	3
Other Adjustments, Net	(46)	(12)	(79)	(46)	(34)
Capital Expenditure	(534)	(801)	(1,053)	(860)	(880)
Free Cash Flow	656	635	435	245	562
% Change	64.6%	-3.2%	-31.5%	-43.7%	129.2%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	261	197	940	1,001	0
Trade Receivables	911	842	960	921	0
Other Current Assets	242	455	597	597	0
Property, Plant & Equipment	3,555	3,835	4,472	4,452	0
Other Non-Current Assets	5,686	5,623	6,575	6,575	0
Total Assets	10,656	10,952	13,543	13,545	0
Short-Term Debt	298	108	577	577	0
Other Current Liabilities	777	786	1,865	1,511	0
Long-Term Debt	1,872	1,764	2,202	2,077	0
Other Non-Current Liabilities	1,165	1,339	1,693	1,643	0
Total Liabilities	4,112	3,996	6,337	5,809	0
Total Equity	6,543	6,955	7,206	7,736	0
Total Equity & Liabilities	10,656	10,952	13,543	13,545	0

* For full definitions of iQmethodSM measures, see page 5.

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

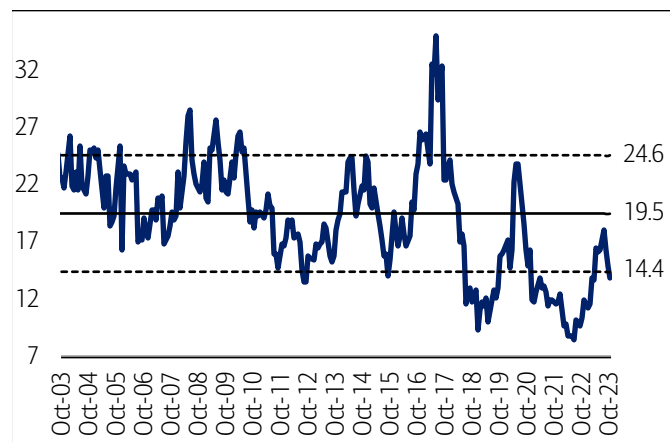
Average Daily Volume 2,104,452

Quarterly Earnings Estimates

	2022	2023
Q1	1.35A	0.73A
Q2	1.41A	0.49A
Q3	1.27A	0.41A
Q4	1.07A	0.52E

Exhibit 1: Knight Swift Transportation Forward P/E

Shares are trading at 14x 2024e EPS, the bottom of its 14x-25x range.



Source: BofA Global Research estimates and Bloomberg.

BofA GLOBAL RESEARCH

Lowers top-end of 2023 EPS target to \$2.10-\$2.20

Knight-Swift Transportation lowered the top end of its 2023 EPS target to \$2.10-\$2.20 from \$2.10-\$2.30 (and from \$3.35-\$3.55 in 2Q23, and \$4.05-\$4.25 in 1Q23). It targets truckload revenue per mile to stabilize at current levels in 4Q (we estimate average revenue per mile ex-fuel of \$2.41 in 4Q23 from \$2.40 in 3Q23, down 11% year-year). It expects truckload tractor count to decline modestly on a sequential basis in 4Q (we estimate 48,573 in 4Q23 tractors from 48,842 in 3Q23, down 3.9% year-year).

While it expects a muted truckload peak season, and spot rates to show minimal improvement in line with seasonal patterns, the company noted carrier capacity continues to exit at an accelerating rate given rising rate and cost pressures. The company reiterated its target for \$700-\$750 million in net CapEx (we estimate \$700 million) and a 4Q23 tax rate of approximately 26% (we expect 26%).

Expects resilient growth in Less-than-Truckload

CEO Dave Jackson noted strength in Less-than-truckload (LTL) as freight market dislocations from Yellow's bankruptcy (previously the 4th largest carrier) continue to support volume and pricing dynamics. It expects mid-mid-teens year-year growth in 4Q23 LTL revenues ex-fuel (we target +16% year-year). It also targets high-single digit year-year improvement in both LTL revenue/ hundredweight ex-fuel (we target +7.6%) and shipments (we estimate +7.0%) in 4Q.

Price objective basis & risk

Knight-Swift Transportation Holdings Inc (KNX)

Our \$65 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, 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
	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
	Union Pacific	UNP	UNP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Norfolk Southern	NSC	NSC 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
	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
	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

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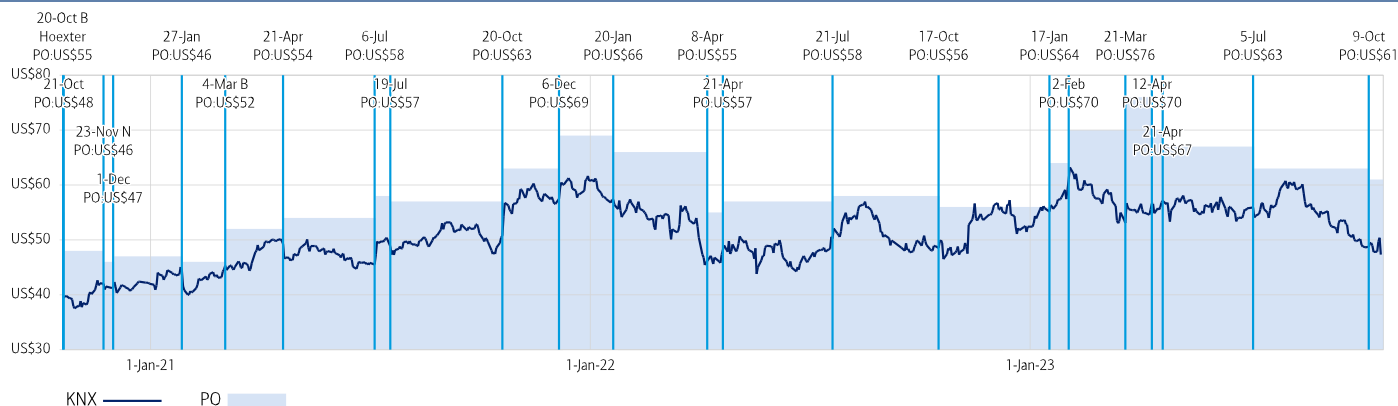
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Important Disclosures

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 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	71	53.38%	Buy	43	60.56%
Hold	29	21.80%	Hold	13	44.83%
Sell	33	24.81%	Sell	17	51.52%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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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