

# US EQUITY RESEARCH

8 Oct 2024

## FedEx Corp

Leading global logistics titan with bright earnings outlook already priced in

### Company Overview

FedEx Corporation ("FedEx") was incorporated in Delaware in October 1997 to serve as the parent holding company and provide strategic direction to the FedEx portfolio of companies. FedEx provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce, and business services, offering integrated business solutions through operating companies as one FedEx.

### Investment Overview

**FedEx is a bellwether of the global logistics industry**, boasting an unparalleled network which ensures rapid, reliable delivery across more than 220 countries and territories. As a pioneer and leader in express delivery, the group integrates advanced technologies to enhance delivery efficiency and service reliability, and support a broad range of market needs, from small businesses to multinational corporations. Moreover, FedEx's comprehensive offerings enables the effective cross-selling of its diverse services, significantly boosting U.S. revenue from customers engaged across its various operating segments. This strategic synergy enhances customer retention and satisfaction, reinforcing FedEx's position as a logistics titan.

**Cost saving initiatives to safeguard profitability despite moderate revenue growth.** Looking ahead, we anticipate FedEx's adjusted EPS to grow at a 15-20% CAGR over the next two years, primarily supported by margin expansion and moderate revenue growth. We project low single-digit y/y revenue growth in FY25, bolstered by improving demand trends in the US domestic parcel service and international exports. This growth is expected to help offset a USD500mn gap resulting from the expiration of FedEx's US Postal Service air cargo contract in 2QFY25. With USD1.8bn of the targeted USD4.0bn in cost savings from the DRIVE program already realised, the remaining USD2.2bn is expected to be achieved by FY25. Alongside rate increases from 3QFY24 and a slightly more favorable product/geographic mix, these factors are anticipated to drive margin expansion. Furthermore, FedEx's Network 2.0 initiative, which targets USD2.0bn in additional savings, could lead to margin upside in the medium-term.

**Free cash flow and ROIC enhancement, coupled with shareholder-centric policies should support share price.** FedEx has been a dividend stalwart over the past twenty years, and has never reduced the payout (in absolute terms), and recently hiked the dividend for FY25 by 10%. Moreover, the company also completed by more USD6.0bn in share buybacks over the past three years, and announced a new USD2.5bn share buyback plan for FY25, which is testament to both its strong cash flows and commitment to shareholders. Actively striving to reduce capital intensity to grow its free cash flow, FedEx has budgeted for flat capex in FY25. With management razor focused on ROIC improvement, we expect FedEx to maintain capex discipline, which will boost free cash flow momentum in tandem with earnings growth.

**We have a HOLD rating on FedEx with a TP of USD267 per share.** Our TP is based on 12.5x forward PE, equivalent to its 5-year historical average and at a discount to peer median level of 15.5x. This is underpinned by our expectation that its bright earnings outlook already priced in and it's in the process of making changes to align its network with the evolving demands and strives to deliver margin expansion with improving cost structure. Share price catalysts may come from better-than-expected volume growth and higher-than-expected cost savings.

### Risks

1) evolving global economy and geopolitical developments may impact global trade volume, 2) the slower pace of executing its DRIVE transformation program may result in less-than-expected savings.

### Analysts

Zoe Zhang | dbsvhk@dbs.com

### Key Financial Data

Bloomberg Ticker	FDX US
Sector	Industrials
Share Price (USD)	262.08
DBS Rating	HOLD
12-mth Target Price (USD)	267
Market Cap (USDb)	64.0
Volume (m shares)	1.7
Free float (%)	91.7
Dividend yield (%)	2.0
Net Debt to Equity (%)	113.2
Fwd. P/E (x)	13.3
P/Book (x)	2.4
ROE (%)	15.1

Closing Price as of 3 Oct 2024

Source: Bloomberg, DBS

### Indexed Share Price vs Composite Index Performance



Source: Bloomberg

Disclaimer: The information contained in this document is intended only for use by the person to whom it has been delivered and should not be disseminated or distributed to third parties without our prior written consent. DBS accepts no liability whatsoever with respect to the use of this document or its contents. Please refer to Disclaimer found at the end of this document

## Financial Summary (USD M)

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	93,512	90,155	87,693	88,526	92,594
% y/y	11.4	(3.6)	(2.7)	1.1	4.6
Gross Profit	0	0	0	0	0
% y/y	0	0	0	0	0
EBITDA	10,835	9,549	10,528	10,573	11,797
% y/y	8.6	(11.9)	10.3	1.9	11.5
Net Profit (Loss)	5,502	3,838	4,480	4,484	5,301
% y/y	12.6	(30.2)	16.7	3.6	18.5
FCF	2,299	1,497	1,905	2,573	4,487
CAPEX	(36.0)	(34.2)	26.2	(42.1)	274.5
EBITDA Margin (%)	11.6	10.6	12.0	11.9	12.7
Net Margin (%)	5.9	4.3	5.1	5.1	5.7
ROA (%)	6.5	4.4	5.1	5.3	6.0
ROE (%)	22.4	15.0	16.7	16.8	18.5
Tax Rate (%)	22.4	25.8	24.8	24.8	24.9

Source: Visible Alpha

## Valuation Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	nm	nm	nm	nm	nm
P/B	nm	nm	nm	nm	nm
Dividend Yield	-	-	-	-	-
EV/EBITDA (x)	nm	nm	nm	nm	nm
FCF Yield %	-	-	-	-	-

Source: Visible Alpha

## Credit &amp; Cashflow Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	149.1	146.9	136.8	110.7	102.7
Net Debt / Equity	1.2	1.2	1.1	0.9	0.8
Debt / Assets	43.3	44	43.4	34.6	33.4
Net Debt / Assets	0.4	0.4	0.4	0.3	0.3
EBITDA / Int Exp	nm	nm	nm	nm	nm
Debt / EBITDA	0.1	0.1	0.1	0	0
ST Debt / Total Debt (%)	3.4	2.2	3.6	2.9	2.6
[Cash + CFO] / ST Debt	6.6	6.2	5.9	13.7	16.9
Receivables Days	46.3	41.2	42	42.3	43
Days Payable	15.7	15.6	13.3	15.1	15.1
Inventory Days	2.5	2.4	2.6	2.6	2.7

Source: Visible Alpha

Disclaimer: The information contained in this document is intended only for use by the person to whom it has been delivered and should not be disseminated or distributed to third parties without our prior written consent. DBS accepts no liability whatsoever with respect to the use of this document or its contents. Please refer to Disclaimer found at the end of this document