

### Fedex results: The e-commerce explosion drives growth

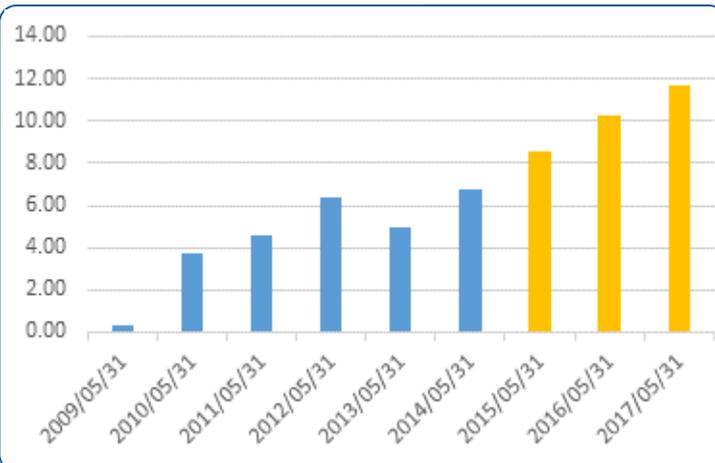
FedEx released FY14 results on Wednesday which were marginally ahead of our model, and *Bloomberg* consensus, forecasts. FY15 earnings guidance (see below) was extremely positive with diluted EPS expected to be between \$8.50 and \$9.00 - growth of between 25% and 35%! 4Q14 was a boost for the company with EPS coming in 5% ahead of estimates. Growth was driven by ground shipping and the increase in e-commerce. E-commerce is a growth area and we think FedEx is perfectly positioned to take advantage of this. The company reported full-year revenue of \$45.6bn vs \$44.3bn in FY13, while net income came in at \$2.1bn. FY14 EPS growth was 37.8% compared with FY13, but we note the rapid growth in earnings can be attributed to a change in pre-tax costs. In FY13 the company recorded a non-operating loss and if we strip this out, it suggests FY14 earnings experienced a marginal decline.

#### Full-year results:

	FY14	FY13 (GAAP)	YoY % ch
Revenue (bn)	\$45.60	\$44.30	2.9
Operating Income (bn)	\$3.45	\$2.55	35.3
Operating Margin	7.6%	5.8%	
Net Income (bn)	\$2.10	\$1.56	34.6
Diluted EPS	\$6.75	\$4.91	37.5

Source: Company data, Anchor Capital

#### FedEx diluted EPS, FY09-FY17E:

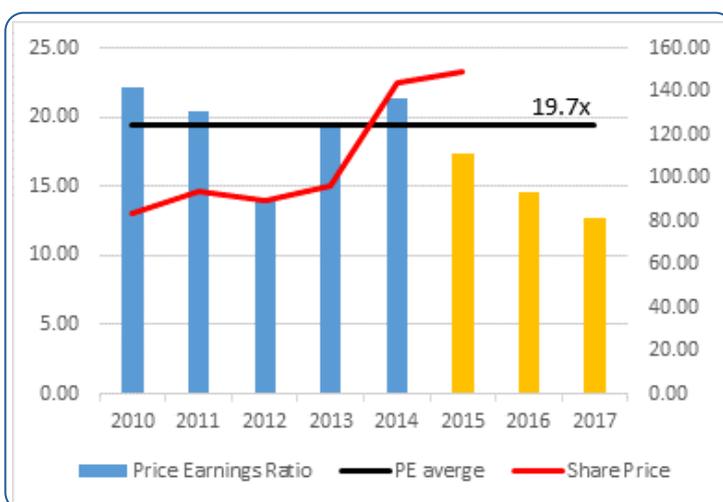


Source: Company data, Bloomberg, Anchor Capital

FedEx currently trades on a P/E of 21x, while the FY15 P/E is forecast (based on *Bloomberg* consensus data) to be

17.4x and the 12-month forward P/E is 17.2x. FedEx is a dividend payer and the company has increased the amount annually over the past 5 years. However, we note the company retains a large portion of earnings. Dividend cover is 11.2x while the dividend yield is 0.42%.

#### FedEx P/E:



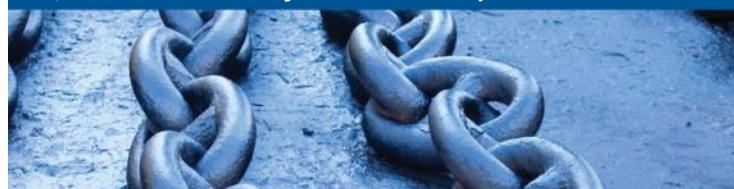
Source: Company data, Bloomberg, Anchor Capital

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We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.



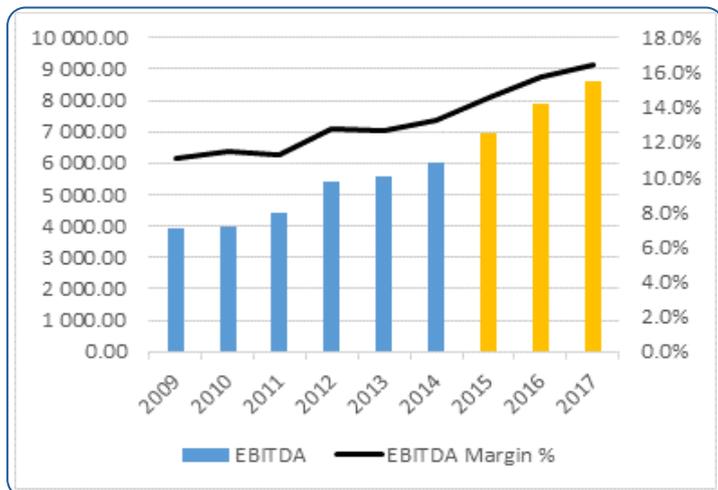
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FedEx continues to expand margins with an EBITDA margin of 13.2%, compared with a 12.6% margin in FY13. This trend is forecast to continue in FY15 with an estimated margin of 14.6%.

**FedEx EBITDA and EBITDA margin, FY09-FY17E:**



Source: Company data, Bloomberg, Anchor Capital

The Group’s fleet modernisation continues to allow FedEx to control costs to increases below revenue growth as the new aircraft are more economical than previous generation models. Capex for FY14 was \$3.5bn and FedEx has guided capex of \$4.2bn in FY15. The company’s cash balance stands at \$2.9bn.

**Outlook:**

For FY15, FedEx projects earnings to be \$8.50-\$9.00 per diluted share. The outlook assumes no net YoY fuel impact and continued moderate US economic growth. FY15 capital spending is expected to increase to approximately \$4.2bn, which includes planned aircraft deliveries to support the company’s fleet modernisation programme and the continued expansion of the FedEx Ground network. FedEx executive vice-president and CFO, Alan B Graf, Jr said on Wednesday that "Fiscal 2014 was a good year for FedEx and we expect fiscal 2015 to be even better,". He added that "with continued modest economic improvement, our results in fiscal 2015 should benefit from base performance improvement and ongoing execution of our profit improvement initiatives at FedEx Express, continued profitable growth at FedEx Ground and FedEx Freight, and our share repurchase programme. We remain committed to improving earnings, cash flows, returns on invested capital and returns to shareowners, with the most recent example of the latter being our announced 33% increase in the quarterly dividend." The strong management guidance has driven the share as the market looks to aggressive growth in the coming years (the company’s share price appreciated over 6% [up \$8.64] on Wednesday to close at \$148.95). We would recommend investors buy FedEx shares on the back of attractive metrics and exciting prospects for the company going forward.

**Bryan J Rudd**



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