

United Parcel Service Ticker: UPS Sector: Industrials Industry: Transportation	Intrinsic Value: \$121.31 Current Price: \$98.28 Stop Loss: \$83.54 Upside Review: \$119.94	TTM P/E: 120.98 Forward P/E: 24.0 FV Imp. P/E: 30.84 Beta: 0.85	Market Cap: \$94.5 BN Dividend Yield: 2.4% 52 Wk Range: \$69.56 - \$98.99
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Industry Trends: Domestic industry revenues have been flat in recent years due to a continuing trend towards slower (lower priced) package delivery since the economic downturn. This has been offset by strong growth in e-commerce facilitation services. Furthermore, as the US economy continues to recover, revenue is expected to grow as customers switch back to higher-priced options, and increase volume. Export (trans-border) services in Asia have seen strong growth, particularly from China, where UPS and Fedex are investing in infrastructure and technology improvements.

Investment Thesis: UPS is the domestic and world-wide leader in an industry where economies of scale are greatly important in achieving operating efficiencies. As such, UPS is ideally situated to take advantage of forecast increases in demand domestically, as the improving economy drives increases in volume and the trend towards lower-priced, slower delivery methods reverses. I also expect margins to increase in tandem with volumes due to improved utilization rates, which will allow UPS to maximize its advantages in scale. Strong growth in the EU and Asia is likely to continue, strengthening revenues over the coming years. Trans-border deliveries in the EU have shown strong growth for several years, while UPS is investing in infrastructure and technology in Asia - particularly exports from China. Business actually grew in Asia in 2012, despite decreases in revenues on the Income Statement, due to currency fluctuations.

Business Overview:

UPS is the world's largest package delivery courier, with integrated air and ground services. The company also provides specialized logistics, supply chain, and transportation services. Domestic packages account for 61% of revenues, international packages account for 22%, and Supply chain and freight - 17%. UPS offers domestic services in 20 major countries, and performs export (trans-border) services in 220 countries. The company positions itself to provide logistics and information services across the entire supply chain.

Pros:

- UPS is the world leader in an industry where economies of scale are crucial to achieve operating efficiency.
- "Rational" pricing in the industry means that supply-side risks are mitigated through means such as fuel surcharges.
- UPS is ideally placed to benefit from growth in Asia, as well as domestically and in Europe.

Risk Factors:

- Currency fluctuations pose a threat to revenue growth - 2Q13 earnings suffered due to this
- The industry is sensitive to changes in the US and world economy

Total Return Estimates:

3 Yr FV Reversion*: 9.18%
5 Yr FV Reversion*: 6.29%
(* - From limit order price of \$0)

Key Valuation Assumptions:

Est. Revenue Growth: 5.0%
WACC: 7.2%
Expected Inflation: 3.0%
Terminal Growth Rate: 4.0%
10 yr. Risk Free Rate: 2.82%
Equity Risk Premium: 5.9%
Effective Tax Rate: 35%

Key Financial Data:

Est. 2013 EPS: 3.83
Est. 2014 EPS: 4.03
3-5 Yr. Est. EPS Growth: 5.19%
Credit Quality: A+
ROE: 14.7%
ROA: 2.24 %
Price /Book: 23.7
Current Ratio: 1.84
Quick Ratio: 1.62

CSR Scores vs. Industry Average:

Human Rights: 1 / 0
Business Ethics Policy: 1 / 1
ESG Disclosure: 57.02 / 24.71
Equal Opportunity: 1 / 1
Emission Reduction: 1 / 1
Environmental Disclosure Score: 50.39 / 32.12

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5-year stock performance



Competitor Comparison

	Market Cap	Net income	P/B	P/E	5-yr Rev	Oper. Margin	D/E
UPS	92,157	829	25.5	114	1.7	10.4	3
Fedex	42,635	1,591	2.4	26.9	3.1	5.9	0.2
Deutsche Post	40,634	1,853	3.2	17.2	0.5	3.6	0.4
Kuhne & Nagel							
International	14,817	559	5.9	24	0	4.1	0
Li & Fung	11,577	421	2.3	28.8	11	3.9	0.3
CH Robinson Worldwide	9,551	587	6.4	16.4	9.2	6.7	—
Industry Average	7,661	828	5.8	45.5	7	279.5	0.7