

United Parcel Service (NYSE: UPS)

Sector: Industrials



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$132.47	\$113.49	\$114.75	\$87.30	20.31	\$99.23B	2.73%	0.80

Business Description

United Parcel Service (UPS) is the world's largest package delivery company and provider of supply chain management solutions. UPS delivers more than 15 million packages daily to 8 million customers in over 220 countries worldwide. Company revenue is segmented into three units: U.S. Domestic Package Services, International Package Services, and Supply Chain and Freight Solutions. Revenue breakdown based on percent of revenue in 2015 was (\$58.4B total): Domestic: 63% | International: 21% | Supply Chain & Freight: 16%

Industry Trends

The courier industry is highly correlated to the e-commerce industry. From 2015-2016, domestic online shopping is projected to increase by 15.6% from \$341B to \$395 B(Mintel). The growth in the e-commerce industry is projected to continue to grow at an average annual rate of 15% to a market of \$600 billion by 2020. Global e-commerce sales are poised to grow 112% over the next four years, a \$4 trillion market (Statista). UPS has recognized the growth in this industry and announced the purchase of 14 Boeing 747-8 jumbo freighters in Q3 of 2016 to supplement its existing capacity for overseas delivery.

Investment Thesis

UPS is best positioned in the industry to succeed from significant growth in the ecommerce industry, as well as through their acquisitions in the health-care logistics space. In addition, UPS's full rollout of their ORION system in 2017 will increase UPS's profit margins by reducing operating costs and expenses.

5-Year Stock Performance vs S&P 500



Growth Opportunities

ORION: UPS's ORION (On-Road Integrated Optimization and Navigation) system is expected to save the company \$300-400 million a year once fully implemented across all of its North American routes in 2017. This system will boost the company's profit margins and can be used as a logistics problem- solver across many of its other business segments.

Health-Care Logistics: UPS recently announced the acquisition of Marken Logistics, the leader in the direct to patient biological sample shipment space. Global growth in biopharma sales is projected to grow 41% by 2020 and UPS has expanded its health-care dedicated facilities to over 100 locations around the world, all certified by the FDA. UPS can leverage its logistics expertise to efficiently route sensitive materials and specimens in and out of complex geographies.

Risks

Amazon Fulfillment Services (Amazon's Delivery Service): Amazon is in the infant stages of developing its own delivery infrastructure. However, even though Amazon is considered UPS's largest account, it only accounted for 1.7% (\$1.0B) of UPS's 2015 revenues.

Furthermore, an Amazon chief executive stated that Amazon's own delivery efforts are needed to supplement, rather than replace the capacity provided by UPS.

Delivery Automation (e.g. drones, autonomous vehicles): UPS has experimented with drones through several vendors. In addition to launching their first trial drone delivery service in the Northeast in early 2016, the company successfully delivered medications in Africa earlier this year using drones. In terms of autonomous vehicles, UPS has developed crash avoidance systems in over one thousand of its ground fleet vehicles and is ready to implement this technology (with its drones) once Congress approves these delivery technologies.

Expected rise in oil prices: UPS is exposed to commodity price risk (oil) due to their reliance on powering their ground and aircraft fleet. However, UPS uses a combination of options, forwards, and futures to hedge this risk and has consistently delivered during high oil price environments. In 2007, when WTI traded at \$120 a barrel, UPS's profit margin was at a historical high of 8.8% compared to 2015's profit margin of 8.4% (with oil trading at an average price of \$49) a barrel. Thus, their hedging strategy has proved effective to mitigate risk exposure concerning fluctuations in oil prices.

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Sources: Bloomberg, Mintel, IBISWorld, Morning Star, Value Line, Statista, Yahoo! Finance

Valuation Assumptions

WACC: 5.82%
Terminal FCF Growth Rate: 2.5%
Estimated EPS: 8.50; EST P/E: 17.0x
Estimated BVPS: 9.20; P/B: 36.12

Key Financials

ROA: 12.93%
ROE: 214.08%
Pretax Margin: 13.24%
Net Income 2015: \$4.8 billion

Corporate Social Responsibility

ESG Disclosure Score: 57 (Industry average: 44.42)
Sustainalytics ESG Score: 72.6 (Industry average: 55.71)
Percent Female Executives: 25% (Industry average: 11.5%)
Women Mgmt. to Employee Ratio: 1 (Industry average: 0.89)
Average Exec. Salary + Bonus: \$718.06K (Industry average: \$837.99K)

Competitive Analysis

UPS's main competitors are FedEx and the United States Postal Service (USPS). UPS's competitive advantage lies in its freight and ground shipping services. FedEx specializes in next-day air service deliveries, while the USPS focuses on residential mail and small package delivery. As of 2015, UPS maintained 57% market share in the domestic courier and delivery services industry, while FedEx holds 25% market share (IBISWorld). Additionally, 57% of all deliveries in 2015 occurred using ground delivery methods, of which UPS specializes in with over 110,000 ground vehicles versus FedEx's fleet of 50,000.

	FedEx	UPS
Market Cap:	\$49B	\$99B
P/E:	27.29	20.31
Revenue (2015):	\$47.5B	\$58.4B
Net Income (2015):	\$1.05B	\$4.8B
Share Price (11/17/16):	\$185.08	\$113.49

