

# Equity Research Report

Old Dominion Freight Line  
(NASDAQ:ODFL)

December 2024



Current Price	Target Price	Potential Upside	Reccomendation	Industry
\$220.56	\$235.80	6.91%	BUY	Leisure and Hospitality

Market Profile	
Closing Price	197.79
52-Week High/Low	165.49 - 227.80
Shares Outstanding (M)	214.3
Market Cap	42.386 B
Dividend Yield	0.50%
Beta	1.08
EV/Revenue	7.2x
EV/EBITDA	21.5x
P/E	34.0x
2023 Revenue	5.86B
2023 Net Income	1.24B
EPS	1.43



Sensitivity Table						
Growth Rate						
	272.48	2.50%	2.00%	1.5%	1.0%	0.5%
WACC	5.24%	258.05	223.01	197.35	177.75	162.29
	4.74%	317.33	265.14	229.09	202.69	182.52
	4.24%	410.84	326.18	272.48	235.37	208.20
	3.74%	580.16	422.47	335.34	280.06	241.87
	3.24%	979.97	596.82	434.50	344.80	287.90
7Y DCF Valuation						
Sum of PV of FCF	7,955,176					
Growth Rate	1.5%					
WACC	4.2%					
Terminal Value	67,256,884					
PV of Terminal Value	50,308,223					
Enterprise Value	58,263,399					
(+) Cash	433,799					
(-) Debt	59,997					
(-) Minority Interest						
Equity Value	58,637,201					
Diluted Shares Outstanding	215200.00					
Implied Share Price	272.48					

## Investment Thesis

We suggest a Buy recommendation on Old Dominion Freight Line based on 2 year price target of \$210, showing a upside potential of 6.06% from its closing price of \$198 on 25/10/2024. These key points drive our suggestion:

### Market Leadership and Operational Efficiency

- Old Dominion Freight Line is a market leader in the less-than-truckload (LTL) freight industry, renowned for its exceptional operational efficiency and customer satisfaction. The company's emphasis on high-quality service, short shipping times, and low claims rates sets it apart from competitors, establishing it as a premium choice in the market.

### Strong Financials and Profitability

- ODFL's balance sheet is robust, with consistently high margins and returns on invested capital. It operates with zero debt, which provides flexibility for potential expansions and acquisitions. Its profitability and cash flow stability allow for reinvestment in technology and infrastructure, strengthening its market position.

### Expansion and E-commerce Tailwinds

- The rise of e-commerce has increased demand for LTL shipping, as companies need to move smaller loads more frequently. ODFL's strategy, which includes additional service centres and capacity expansions, is consistent with this growth trend, allowing it to profit from rising demand and customer base expansion.

### Resilience and Growth Potential

- Despite fluctuations in the economy, ODFL has showed resilience by maintaining high growth over time. The company's emphasis on high-return investments and disciplined expansion ensures sustained growth, making it a reliable investment even in a challenging economic environment.

# Old Dominion Freight Line Company & Indsutry Overview



## Company Overview

Old Dominion Freight Line (ODFL) is one of the leading less-than-truckload carriers in the United States. Founded in 1934 by Earl and Lillian Congdon, the company initially operated exclusively in Virginia before expanding during World War II. In early 2022, ODFL achieved a major milestone by becoming a Nasdaq-100 company.

ODFL’s business success can be broken down into the following sections:

- **Operational Efficiency:** ODFL consistently improves its operational ratio which is a crucial factor within the transportation industry. Analysts expect ODFL to achieve an operating ratio below 70% by 2028, with incremental margins between 40% and 45%. This high level of efficiency reflects the company's strong emphasis on cost control and productivity improvements. Additionally, ODFL has had a significant increase in its ROIC which was just over 30% in 2023. These factors highlight ODFL’s ability to reinvest in its operational effectively.
- **Investor confidence and the company's strong value** have been largely attributed to its ability to manage different freight cycles. Notably, ODFL’s profits per share (EPS) for the quarter increased by 11.3% compared to its previous year.
- **Old Dominion Freight Line’s business model** revolves around its primary LTL freight services consistently focusing on operational efficiency and high quality service which goes hand in hand with ODFL’s premium pricing. ODFL’s ability to stay up to date on technological trends and advancements as well as its customer-centric approach enables it to dominate the LTL industry.

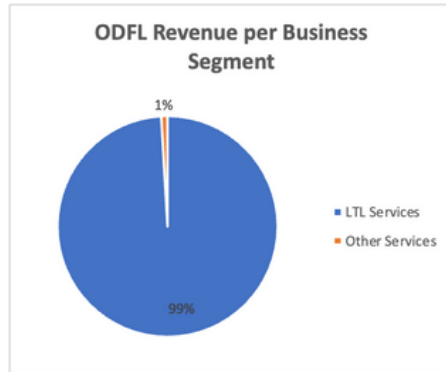
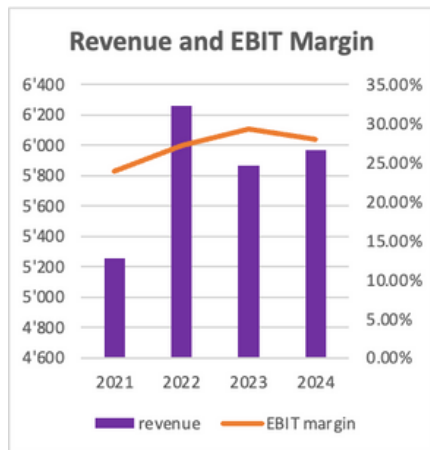
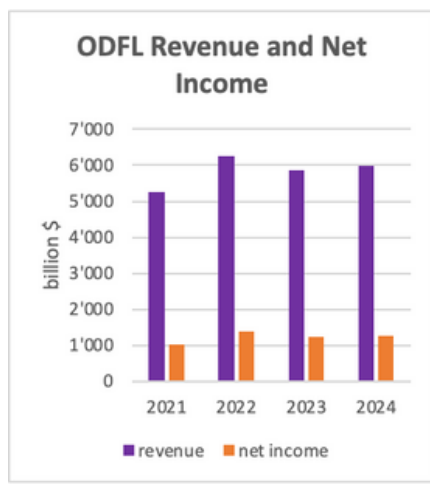
## Industry Overview

With a market capitalisation of over \$42.3 billion as of November 2024, ODFL is well-represented in the transportation industry. The top five competitors based on market capitalisation are:

- JB Hunt Transport Services, Inc (NYSE: JBHT) - Market Cap: \$17.8 billion.
- U-Haul Holding Company (NYSE: UHAL) - Market Cap: \$13.3 billion.
- XPO, Inc (NYSE: XPO) - Market Cap: \$13.1 billion.
- TFI International, Inc (NYSE: TFII) - Market Cap: \$11.64 billion.
- Saia, Inc (NYSE: SAIA) - Market Cap: \$11.58 billion.

The secret to the business's success is its distinctive culture, which is defined by a low staff turnover rate, a strong emphasis on customer service, and a dedication to ongoing development.

Competitors	MCap	ROE	ROA	Revenue	Net Debt
ODFL	43.05	30.24%	22.96%	5.92	-14.8
JBHT	18.04	14.19%	6.83%	10.61	1.78
UHAL	13.22	8.03%	2.94%	4.86	5.18
XPO	13.92	27.58%	4.64%	8.02	3.9
TFII	11.52	17.49%	6.27%	7.15	3.11
SAIA	12.72	18.39%	12.17%	3.17	294.56





# Old Dominion Freight Line Valuation

ODLF Inc.- Revenue Projections	Historical:			Projected						
	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Revenue:	5,256,328	6,260,077	5,866,152	7,039,382.40	8,447,258.88	9,714,347.71	10,685,782.48	11,754,360.73	12,929,796.80	14,222,776.49
Growth Rate		16%	-7%	20.0%	20.0%	15.0%	10.0%	10.0%	10.0%	10.0%
(-) Operating Expenses:	3,864,726	4,419,445	4,225,479	5,071,969.58	6,086,363.50	6,999,318.03	7,699,249.83	8,469,174.81	9,316,092.29	10,247,701.52
% of Revenue	74%	71%	72%	72%	72%	72%	72%	72%	72%	72%
EBIT	1,388,423	1,841,349	1,647,776	1,969,103.64	2,362,924.37	2,717,363.02	2,989,099.33	3,288,009.26	3,616,810.19	3,978,491.20
% of Revenue	26%	29%	28%	28%	28%	28%	28%	28%	28%	28%
(-) Taxes	349,420	463,406	414,690	495,557.75	594,669.30	683,869.69	752,256.66	827,482.33	910,230.56	1,001,253.62
% of EBIT	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
NOPAT	1,039,003	1,377,943	1,233,086	1,473,545.89	1,768,255.07	2,033,493.33	2,236,842.66	2,460,526.93	2,706,579.62	2,977,237.58
(*) Depreciation & Amortization:	259,899	276,066	324,449	349,277.94	419,133.53	482,003.56	530,203.91	583,224.31	641,546.74	705,701.41
D&A % of Revenue	4.9%	4.4%	5.5%	5%	5%	5%	5%	5%	5%	5%
(+/-) Deferred Income Taxes:	30,165	62,008	53,341	57,611.32	69,265.80	79,655.67	87,621.24	96,383.36	106,021.70	116,623.87
% of Income Statement Taxes	9%	13%	13%	12%	12%	12%	12%	12%	12%	12%
Change in Working Capital:	(198,607)	(83,013)	(61,846)	(144,513.64)	(173,416.36)	(199,428.82)	(219,371.70)	(241,308.87)	(265,439.76)	(291,983.73)
% of Revenue	-4%	-1%	-1%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
(-) Capital Expenditures:	(550,077)	(775,148)	(757,309)	(839,029.98)	(1,006,835.98)	(1,157,861.38)	(1,273,647.52)	(1,401,012.27)	(1,541,113.50)	(1,695,224.85)
% of Revenue	-10%	-12%	-13%	-12%	-12%	-12%	-12%	-12%	-12%	-12%
Unlevered Free Cash Flow:	290,319	519,782	413,931	896,892	1,076,402	1,237,862	1,361,649	1,497,813	1,647,595	1,812,354
% Growth Rate		44%	-26%	54%	17%	13%	9%	9%	9%	9%
EBITDA:	1,298,902	1,654,009	1,557,535	1,822,824	2,187,389	2,515,497	2,767,047	3,043,751	3,348,126	3,682,939
% Growth Rate		21%	-6%	15%	17%	13%	9%	9%	9%	9%

## 7Y DCF Valuation

Sum of PV of FCF	7,955,176
Growth Rate	1.5%
WACC	4.2%
Terminal Value	67,256,884
PV of Terminal Value	50,308,223
Enterprise Value	58,263,399
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(-) Debt	59,997
(-) Minority Interest	
Equity Value	58,637,201
Diluted Shares Outstanding	215200.00
Implied Share Price	272.48

## WACC

Equity	44,723,000
Debt	59,997
Cost of Debt	0.77%
Tax Rate	25.2%
D/(D+E)	0.1%
Cost of Debt	0.6%
Risk Free Rate (10-Yr Treasury Yield)	4.0%
Expected Market Return	8.0%
Market Risk Premium	4.0%
Levered Beta	1.02
E/(D+E)	99.9%
Cost of Equity	4.2%
WACC	4.2%

Comparable Companies	Comparables Analysis ( In Billions USD)								
	Market Data			Financials			Multiples		
	Equity Value	Debt	Enterprise Value	Sales	EBITDA	Net Income	EV/EBITDA	P/E	Price/Sales
OLD DOMINION FREIGHT LINE, INC. (XNAS:ODFL)	\$47.02	\$0.06	\$44.39	\$5.92	\$1.99	\$1.24	22.31	37.92	7.94
J. B. HUNT TRANSPORT SERVICES, INC. (XNAS:JBHT)	\$19.19	\$1.33	\$22.74	\$1.06	\$1.73	\$0.73	13.14	26.35	18.09
U-Haul Holding Company (XNYS:UHAL)	\$12.58	\$6.11	\$17.95	\$4.86	\$1.65	\$0.57	10.88	22.07	2.59
XPO, INC. (XNYS:XPO)	\$17.49	\$3.92	\$21.26	\$8.02	\$0.98	\$0.19	21.81	92.54	2.18
TFI International Inc. (XNYS:TFII)	\$12.47	\$1.41	\$15.80	\$7.15	\$1.19	\$0.51	13.28	24.25	1.74
SAIA, INC. (XNAS:SAIA)	\$15.40	\$0.20	\$15.30	\$3.17	\$0.64	\$0.35	23.90	43.42	4.86

High	23.90	92.54	18.09
75th Percentile	22.18	42.04	7.17
Average	17.55	41.09	6.23
Median	17.54	32.13	3.72
25th Percentile	13.17	24.78	2.28
Low	10.88	22.07	1.74

# Old Dominion Freight Line Price Movement Analysis



## Chart Appendix

Old Dominion Freight Line (ODFL) has seen a stable upward movement in its stock price over the past year, marked by resilience despite market fluctuations. Year-to-date, the stock is up approximately 11.7%, with periodic volatility. Its price remains 23.2% above its 52-week low, but it has faced a slight decline, trading about 10.5% below its 52-week high due to recent corrections in the broader market. The stock has maintained its strength around its moving averages, currently positioned above the 20-day, 50-day, and 200-day simple moving averages, indicating a potential for continued stability in the short term.

Market analysts hold a generally cautious stance on ODFL. Although the average 12-month price target of \$197.69 implies a slight downside from its recent trading price, there's a mixed sentiment among analysts: some suggest a "Hold" rating due to valuation concerns, while a few give it a "Buy" due to strong financial metrics. The company boasts high operating and profit margins, with figures of 27.6% and 21%, respectively, reflecting solid profitability that reinforces confidence in its long-term performance.

Old Dominion's financial health and efficiency, along with its strategic operational model, support an optimistic outlook despite potential market pullbacks. Upcoming holiday demand and seasonal shipping could positively impact ODFL's performance through Q4, with the stock potentially testing key levels if broader market conditions stabilize.

## Investment Risks

### Fuel price volatility:

Although Old Dominion pass fuel costs to customers via fuel surcharges, sharp increases in prices can affect operating margins if the company fails to adjust fast enough. Conversely, falling fuel prices can lower revenue from surcharges which can impact profitability. The company's operational costs and profitability are partially tied to global oil price fluctuations, which are influenced by geopolitical tensions, OPEC decisions, and supply-demand imbalances.

### Demand:

This industry is highly cyclical and closely tied to economic activity. For example, in times of economic downturn or recession freight volumes typically decline as businesses reduce production and consumers cut back on spending. Such fluctuations in buyer behavior and shifts in manufacturing make it difficult to forecast revenues accurately.



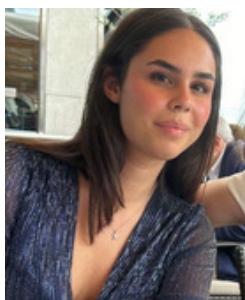
# Equity Research Report

# Disclaimer and Authors

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Named after the University of Surrey's Austin Pearce building, we thought it was only right to give credit to the place which truly ignited our immersion into economics and finance, and more specifically, our passion for understanding financial markets.