



Market Spotlight: Delivery Services July 16 2007

NEW YORK (AP) - Air freight and shipping companies that struggled to recover from a steep decline in share prices a year ago are finally starting to see some relief.

In late July and early August 2006, UPS Inc. and Expeditors International of Washington Inc. each posted one-day, double-digit declines after delivering lower-than-expected quarterly earnings. That helped drag the Dow Jones Delivery Services Index 15 percent lower in a matter of weeks. The index is still down more than 4 percent over the past year.

But there are signs the traditionally volatile industry may be improving. Over the past three months, the delivery services index -- a basket of stocks that includes express delivery companies, asset-light freight forwarders and air-cargo contract haulers -- is up more than 7 percent.

Last week, Baird analyst Jon Lagenfeld upgraded Expeditors shares to "Outperform" from "Neutral," saying the Seattle-based freight-forwarding company should benefit from "excellent long-term growth drivers."

His new price target of \$52, based on a multiple of 27 times estimated earnings per share, suggests an upside of more than 14 percent for the stock.

"We believe this is a reasonable valuation for a company of the highest quality that should grow EPS in the upper-teens for the next several years," Lagenfeld wrote in issuing the upgrade.

Freight forwarders such as Expeditors, UTI Worldwide Inc. and EGL Inc., which is in the process of going private, help move customers' freight on vehicles owned by other companies.

In recent months, a slower U.S. economy has hurt international trade volumes, possibly weighing on share prices.

"The freight forwarders have all seen a slowdown in freight volume across the board," said Donald Broughton, an analyst at A.G. Edwards & Sons. But the forwarding companies can still benefit, Broughton said, because lower volumes reduce spot prices for cargo.

"It's actually good for their margins," he said.

FedEx shares rallied early last week after a Barron's magazine column suggested the Memphis, Tenn.-based company's \$34 billion market capitalization and \$1 billion in debt would make it an attractive buyout target.

Although the article offered no evidence of takeover talks, FedEx shares ended the week 5.8 percent higher than the previous Friday.

The industry got another boost last week when Bank of America analysts reported that the level of freight-ton-kilometers, an industry measure of cargo demand, in May grew at its highest rate in months in North America and outpaced year-on-year gains in Asia.

Industrywide, the metric increased 5 percent, which the analysts called "solid in light of challenging comparisons" last May. They cautioned, however, that a slower economy and higher fuel prices could affect air-cargo growth.

Brandon Fried, executive director of the Airforwarders Association, a Washington, D.C.-based trade group, said increased fuel costs are a concern for all shipping companies.

"Most of the time, it is passed along to the consumer, but it can have an impact on factory costs and overall productivity" he said.

Then there's the issue of staying efficient amid increasingly stringent anti-terror regulations.

"The challenge is to come out with the best possible security plan and at the same time to facilitate commerce," said George Trapp, president of the Express Delivery & Logistics Association and director of risk management at Dutch shipping company TNT N.V. "We're an express industry, so anything that impedes the flow of commerce slows us down."