



we have reduced confidence in UPS' ability to control burgeoning capex, with capital intensity expectations more than doubling as a % of sales in just the last 12mo- a significant feat for a business with \$70B in annual sales. Some of this reflects fast-growing e-commerce volumes, though we feel much of it is catch-up from significant under-investment over the last decade-plus. As such we see a lack of positive catalysts to justify a Buy rating. UPS shares won't start working in our view until mgmt. can articulate a sound strategy to strike the right balance between price and volumes vis-à-vis Amazon, and talk more concretely about the long-term/ structural capital needs of the business as mgmt. "leans in" to higher B2C shipments.

- **ODFL and CNI:** We remain comfortable with our relative Sell ratings on ODFL and CNI, with the former being more controversial than the latter (albeit less so post 4Q results). With respect to ODFL, consensus EPS estimates for next year went up by 10% on the back of 4Q results, but shares are down 5% since the release (S&P +1%)- indicative of the multiple compression that we feel was warranted on the back of moderating incremental margin assumptions. We note our Sell rating on ODFL reflects our relative value framework rather than any structural or secular concerns, which is indicative of mgmt's strong track record of generating high incremental returns (albeit low fcf conversion).
- **Rails- Cash return key driver of equity value:** With a relatively benign volume and pricing environment for rails (puts and takes on mix offset by pricing power from industry structure and truckload tightening), the key driver for rail stocks, in our view, is FCF growth over-and-above book EPS growth (i.e. >100% incremental fcf conversion) and share buybacks. From this perspective CSX screens the most favorable to us (hence our top rail pick), with mgmt. recently pointing to repurchasing \$5B of its own shares (10% of market cap) over the next 12 months. This, coupled with ambitious OR targets, translates to even higher EPS power in 2020 (our 2020 EPS estimate of \$4.65 translates to 27% EPS CAGR vs. 2017 and even higher on a FCF basis given lower capex, which under any reasonable valuation scenario equates to much higher equity value).

See details within this note for a more comprehensive discussion on our company and industry takeaways post results.