



Company Specific Thoughts

On the back of 4Q results we have increased conviction in our positive stance on **Knight Transportation (KNX)**, **XPO Logistics (XPO)** and **CSX Corp (CSX)**. We remain comfortable with our sole-Sell ratings on **Old Dominion (ODFL)** and **Canadian National (CNI)**, while our Buy on **UPS** was wrong and we are using this report to downgrade our rating to Hold. Our company-specific thoughts are below, and see details within this note for our industry takeaways post results:

- **KNX - best earnings revision potential across our coverage universe:**
 For KNX we see potential for EPS to approach \$3.60 per share in 2019, which is 30% above current consensus. This is based on 15% operating margin on 2019e revenue ex. fuel, which is 200bps better than what KNX-SWFT achieved on a consolidated basis in 4Q'17- despite being in the early innings of integration and cyclical recovery. Our bullishness is supported by highly accommodative cyclical and non-cyclical factors, such as high-single-digit growth in U.S. truck tonnage and contract rates, double-digit improvements in yield, and plenty of low-hanging cost opportunity at Swift. See Figure 1 below for our walk to mid-teens operating margin.

Figure 1: Walk to KNX 15% operating margin in 2019

	2017	2018	2019
Revenue ex-fuel			
KNX	1,025.7	1,102.6	1,157.7
SWFT	3,606.3	3,876.8	4,070.6
Total Revenue, net of fuel	4,631.9	4,979.3	5,228.3
YoY Chg.		7.5%	5.0%
Adjusted EBIT			
KNX	128.8	151.8	168.4
SWFT	360.6	455.3	523.1
Synergies		50	75
Reduced Rental Expense		125	250
Incremental D&A		(99)	(197)
Consolidated EBIT	489.4	683.6	819.5
Organic Incremental Margin			
KNX		30%	30%
SWFT		35%	35%
Consolidated		55.9%	54.6%
Operating margin (ex-fuel)			
KNX			14.5%
SWFT			12.9%
Consolidated	10.6%	13.7%	15.7%

Note: We are assuming a pro-forma OR of 90% for SWFT in 2017.
 Source: Deutsche Bank, Company filings