E-Commerce Stock Play: Amazon Vs. UPS

It has been a tough year for true believers of Amazon (AMZN), with the online retailer's shares down 23%, a failed smart phone rollout and recognition that its revenue growth – the statistic that has held Amazon shares aloft in recent years – is inexorably slowing.

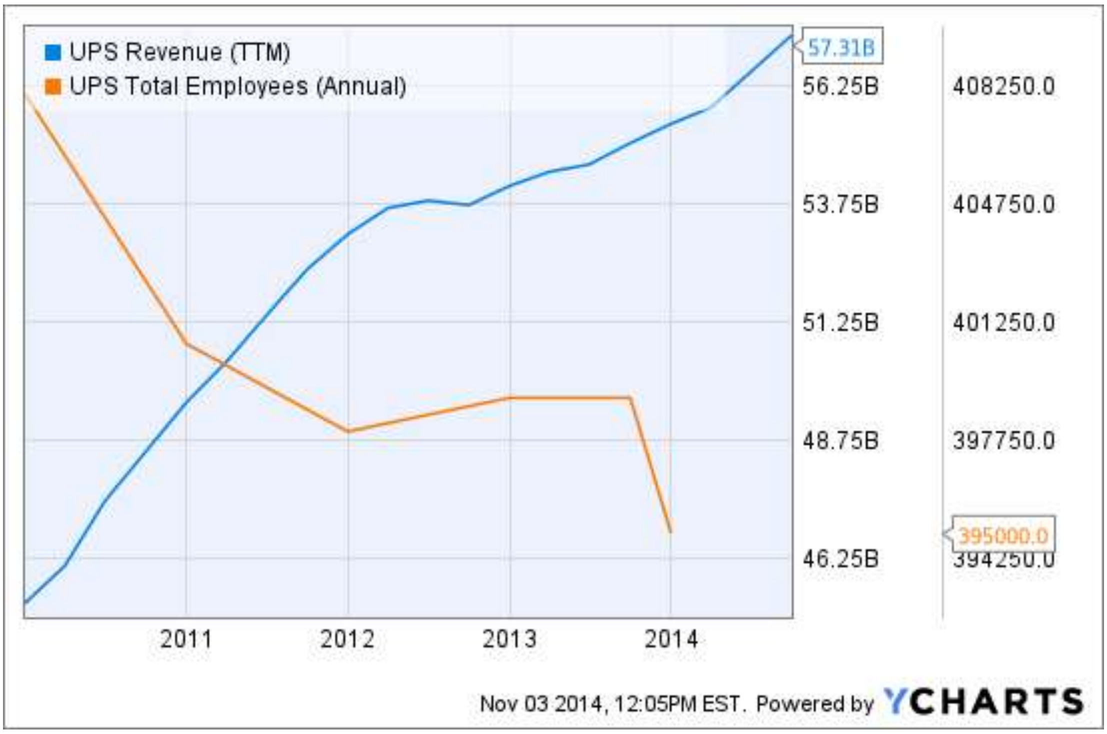
Amazon stock could quite easily snack back to $400 and more on some positive news, but doing so on the basis of a reasonable multiple of net income any time soon seems highly unlikely. Tough territory for a value investor.

That said, there is very good news in Amazon's third-quarter results and its results year-to-date, that is, if you're UPS (UPS): Amazon is tilting toward increasingly being a domestic company, with its North American sales growth rate for the first nine months of the year running a quite-healthy 26%, while international sales grew just 17%. North American sales are already far larger -- $36.7 billion for the first nine months of 2014, versus $22.9 billion for international – and the more rapid rate of growth will widen that gap going forward.

For UPS, which has invested heavily since last December's service problems, this means higher volumes of business-to-consumer packages across its big network of sorting facilities and transport-and-delivery assets in North America. It likely means more packages per neighborhood, which results in route density for UPS trucks, and that makes the business more efficient and more profitable. When the market punished UPS shares early this year, we wrote that the "bad news" around the holiday deliveries was actually good news for the delivery service.

UPS data by YCharts

The stock promptly recovered. As we've written, UPS is a productivity machine, handling more packages every year while keeping its headcount and asset levels growing only slightly. It may have an occasional bad holiday season, when it misjudges package volume and timing. But long-term is has a giant and valuable franchise with wide-moat protection. And the trend to e-commerce plays directly to UPS's strengths.



UPS Revenue (TTM) data by YCharts

Business-to-consumer packages are typically light, so former pricing based on weight disadvantaged UPS. But it is adjusting its pricing and, ahead of the holiday season or 2014, UPS is requiring shippers to better estimate package volumes and commit to those levels.

UPS shares aren't cheap, looking at forward PE ratio, currently a tad pricier than Union Pacific (UNP), CSX (CSX) and FedEx (FDX). (The UPS dividend yield is a little better than 2.5%.) But UPS has proven its ability to boost productivity and its assets better match the current market demand than FedEx's, which were built for costlier overnight shipping.

UPS PE Ratio (Forward) data by YCharts

UPS was among the cheerier announcements of earnings season, beating estimates by four cents and slightly ahead of revenue expectations. Nate Brochmann, an analyst at William Blair & Co. in Chicago, rates UPS shares outperform and recommends the shares for long-term investors.