



Union Pacific Corporation (UNP)

Updated January 26th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$161	5 Year CAGR Estimate:	1.5%	Volatility Percentile:	32.0%
Fair Value Price:	\$121	5 Year Growth Estimate:	5.0%	Momentum Percentile:	94.3%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-5.5%	Growth Percentile:	32.4%
Dividend Yield:	2.0%	5 Year Price Target	\$183	Valuation Percentile:	10.9%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	5.8%

Overview & Current Events

President Lincoln signed the Pacific Railway Act of 1862 that authorized the Union Pacific Railroad Company to build a rail line west towards the coast from the Missouri River. Today, Union Pacific is the largest railroad company in the country and operates more than 32,000 miles of rail throughout the western two-thirds of the country. Union Pacific transports industrial and agricultural products as well as coal and chemicals. The stock has a current market cap of nearly \$119 billion.

Union Pacific reported financial results for the fourth quarter and full year 2018 on January 24th. The company earned \$2.12 during the quarter, beating estimates by \$0.04 and growing 39% year-over-year. Revenue increased 5.7% to \$5.76 billion, beating estimates by \$20 million. The railroad's operating ratio improved 1.1% to 61.6%. For the year, Union Pacific earned \$7.91 per share. This was a 37% increase from 2017 and \$0.32 above the midpoint for guidance. Sales grew 7.5% to \$22.8 billion. The operating ratio for 2018 improved 0.1% to 62.7% for 2018.

For the quarter, freight revenue was higher by 6% due to volume growth, increased fuel surcharge revenue and higher prices. Agricultural products had 5% revenue growth that was offset by a 2% drop in volumes. While soybean exports were down, Union Pacific saw strong demand for both biofuels and fertilizers. Industrial revenues were up 10% on a 6% increase in volumes. Construction volumes were up 10% while metal shipments grew 19% due to pipe demand. Premium shipments were the company's best performing category, posting 15% revenue growth and 9% volume growth. While finished vehicles were flat from the previous year, international intermodal grew 21% while domestic shipments were higher by 3%. Union Pacific stated that some of the international intermodal improvement were due to tariff pull ahead orders. Energy (down 8%) was the lone product to experience a revenue decline. Energy volumes dropped 9%, primarily due to a 47% decrease in frac sand volumes and a 6% drop in coal shipments. Union Pacific said that the drop in frac sand was due to customers using local sources for their needs. On a positive note, Petroleum volumes were up 25% on crude oil growth. Operational improvements were mixed. Terminal dwell showed an 18% improvement, but average train speed decreased 3%. Fuel price was up 15% from the previous year. We forecast EPS growing to \$8.96 in 2019, a 13% improvement from the previous year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.81	\$2.77	\$3.36	\$4.14	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.96	\$11.43
DPS	\$0.54	\$0.66	\$0.97	\$1.25	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.20	\$3.89
Shares	1010.1	983.13	959.86	938.93	912	883.37	849.21	815.8	780.9	755	730	650

EPS for Union Pacific have increased at a rate of almost 10% per year over the past decade, though much of this growth occurred in the years directly after the last recession. Earnings have increased at a rate of 5.3% over the past five years. We estimate that Union Pacific will grow EPS at a rate of 5% going forward. Applying this growth rate to the company's guidance for 2019 means shares could earn \$11.43 by 2024.

Union Pacific has increased its dividend for the past 12 years. The company has raised its dividend at a rate of 18% per year. Union Pacific raised its dividend twice in 2018. Shareholders received 23.4% more in dividends-per-share in 2018 than they did in 2017.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.7	13.8	14.5	14.1	16.0	17.6	18.3	17.4	19.1	18.6	18.0	16.0
Avg. Yld.	2.0%	1.7%	2.0%	2.1%	2.0%	1.9%	2.2%	2.6%	2.2%	2.3%	2.0%	2.6%

Shares of Union Pacific have increased \$20, or 14%, since our October 30th update. Shares trade with a P/E of 18 based on our expected EPS for the current year. Union Pacific shares have an average price to earnings multiple of 16 over the past decade. If the stock reverts to its average P/E, then the stock's multiple could contract 2.3% per year through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	29.8%	23.8%	28.9%	30.2%	31.4%	33.2%	40.7%	44.6%	42.8%	38.7%	35.7%	34%

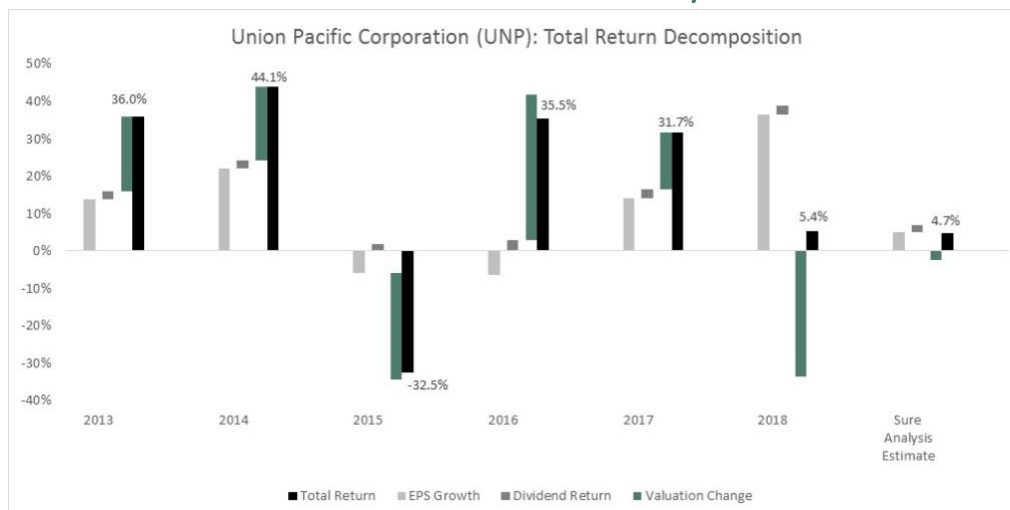
Union Pacific's earnings were impacted during the last recession. A decline in earnings would be likely to occur in the next recession as many of the products that the company transports, like automotive vehicles, are in high demand when the U.S. economy is on solid ground. Union Pacific's dividend payout ratio has generally stayed below 40% over the last ten years. We feel that the company is unlikely to expand its dividend payout ratio much beyond current levels. Accelerated dividend growth will likely have to come from higher earnings growth.

Union Pacific is the largest railroad in the U.S. and spans the western two-thirds of the country. This gives the company pricing power for its shipments as was seen in the most recent quarter due to strong network effects that railroads enjoy. The railroad has stops along both the Canadian and Mexican borders, making Union Pacific an attractive option for businesses looking to ship goods to almost any place in North America.

Final Thoughts & Recommendation

After reviewing fourth quarter and full year financial results, we now forecast that Union Pacific can offer investors a total return of 4.7% through 2024, up from 3.3% previously. The railroad demonstrated gains in volumes and revenue from almost every product category. Union Pacific also gave investors two dividend increases during the year. We have raised our 2024 price target \$35 to \$183, but encourage investors to wait before purchasing shares of the company due to the recent surge in price. We continue to recommend investors looking for railroad sector exposure consider Kansas City Southern (KSU) or Canadian Pacific (CP), as these railroads offer a higher potential total return by our analysis.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14143	16965	19557	20926	21963	23988	21813	19941	21240	22832
Gross Profit	9556	10014	11187	12218	13102	14753	14137	13019	13993	14595
Gross Margin	67.6%	59.0%	57.2%	58.4%	59.7%	61.5%	64.8%	65.3%	65.9%	63.9%
SG&A Exp.	4063	4314	4681	4685	4807	5076	5161	4750	4984	5056
D&A Exp.	1427	1487	1617	1760	1777	1904	2012	2038	2105	2191
Operating Profit	4066	4981	5724	6745	7446	8753	8052	7272	8061	8517
Op. Margin	28.7%	29.4%	29.3%	32.2%	33.9%	36.5%	36.9%	36.5%	38.0%	37.3%
Net Profit	1890	2780	3292	3943	4388	5180	4772	4233	10712	5966
Net Margin	13.4%	16.4%	16.8%	18.8%	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%
Free Cash Flow	750	1623	2697	2423	3327	3039	2694	4020	3992	5249
Income Tax	1084	1653	1972	2375	2660	3163	2884	2533	-3080	1775

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	42184	43088	45096	47153	49731	52372	54600	55718	57806	59147
Cash & Equivalents	1850	1086	1217	1063	1432	1586	1391	1277	1275	1273
Acc. Receivable	666	1184	1401	1331	1414	1611	1356	1258	1493	N/A
Inventories	475	534	614	660	653	712	736	717	749	N/A
Total Liabilities	25383	25325	26518	27276	28506	31183	33898	35786	32950	38724
Accounts Payable	612	677	819	825	803	877	743	955	1013	N/A
Long-Term Debt	9848	9242	8906	8997	9577	11413	14201	15007	16944	22391
Total Equity	16801	17763	18578	19877	21225	21189	20702	19932	24856	20423
D/E Ratio	0.59	0.52	0.48	0.45	0.45	0.54	0.69	0.75	0.68	1.10

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.6%	6.5%	7.5%	8.5%	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%
Return on Equity	11.7%	16.1%	18.1%	20.5%	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%
ROIC	7.4%	10.4%	12.1%	14.0%	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%
Shares Out.	1010	983.13	959.86	938.93	912	883.37	849.21	815.8	780.9	755
Revenue/Share	13.98	16.87	19.96	21.96	23.58	26.62	25.09	23.87	26.49	30.27
FCF/Share	0.74	1.61	2.75	2.54	3.57	3.37	3.10	4.81	4.98	6.96

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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