



Union Pacific Corporation (UNP)

Updated April 20th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$177	5 Year CAGR Estimate:	2.8%	Volatility Percentile:	41.1%
Fair Value Price:	\$143	5 Year Growth Estimate:	5.0%	Momentum Percentile:	88.8%
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Growth Percentile:	35.6%
Dividend Yield:	2.0%	5 Year Price Target	\$183	Valuation Percentile:	22.6%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	13.3%

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 company trades with a market capitalization of \$125 billion and generates nearly \$24 billion in annual revenues.

Union Pacific reported financial results for the first quarter on 4/18/2019. The company earned \$1.93 per share, \$0.06 above estimates and a 15% increase from the previous year. Revenue declined 1.7% to \$5.4 billion, which was \$122 million below estimates. The company's operating ratio improved 1% to 63.6% year-over-year.

Freight volumes declined 2% in the first quarter, largely due to declines in energy and agricultural products. Revenues and volumes for energy declined 16% and 15%, respectively. Local sourcing led to a 45% drop in frac sand shipments. Coal was down 14% while petroleum, LPG and renewables grew 18% during the quarter. Reduced grain exports caused a 3% decline in revenues and 7% drop in volumes in the agricultural products category. Declines among these two product shipments were partially offset by gains in industrial and premium. Continued strength in construction, plastics and pipes drove a 5% revenue increase and 4% volume growth for industrials. New international customers and tariff pull ahead business helped revenues grow 4% and volumes improve 2% for premium shipments. Auto sales declined 3% from the previous year. Union Pacific's operating indicators all performed well during the quarter. Terminal dwell was down 19% while freight car velocity improved 7%. Fuel price declined 3% to \$2.07 per gallon of diesel. The company also spent \$3.5 billion to repurchase 18.1 million shares in the first quarter.

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	\$3.52	\$4.49
Shares	1010	983	960	939	912	883	849	816	781	755	720	650

Earnings-per-share have increased at a rate of almost 10% per year over the past decade, though much of this growth occurred in the years 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 earnings-per-share at a rate of 5% going forward due to revenue growth and continued business efficiency. 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 each of the past 13 years. The company has been very aggressive in raising its dividend recently, with four increases in the past six quarters. The most recent increase was announced 2/7/2019 and resulted in a 10% dividend raise. Dividends-per-share in 2019 should be 15% higher than dividends received in 2018 as a result. Erring on the conservative side, we expect dividends to grow at the same rate as earnings through 2024. Union Pacific's irregular dividend policy makes it somewhat difficult to forecast future payouts, but we believe its commitment to boosting the dividend is strong.

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	19.8	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 \$16, or 10%, since our January 26th update. Shares trade with a price-to-earnings multiple of 19.8 based off of our expected earnings-per-share 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 valuation by 2024, shareholders could see a 4.2% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	30%	24%	29%	30%	31%	33%	41%	45%	43%	39%	39%	39%

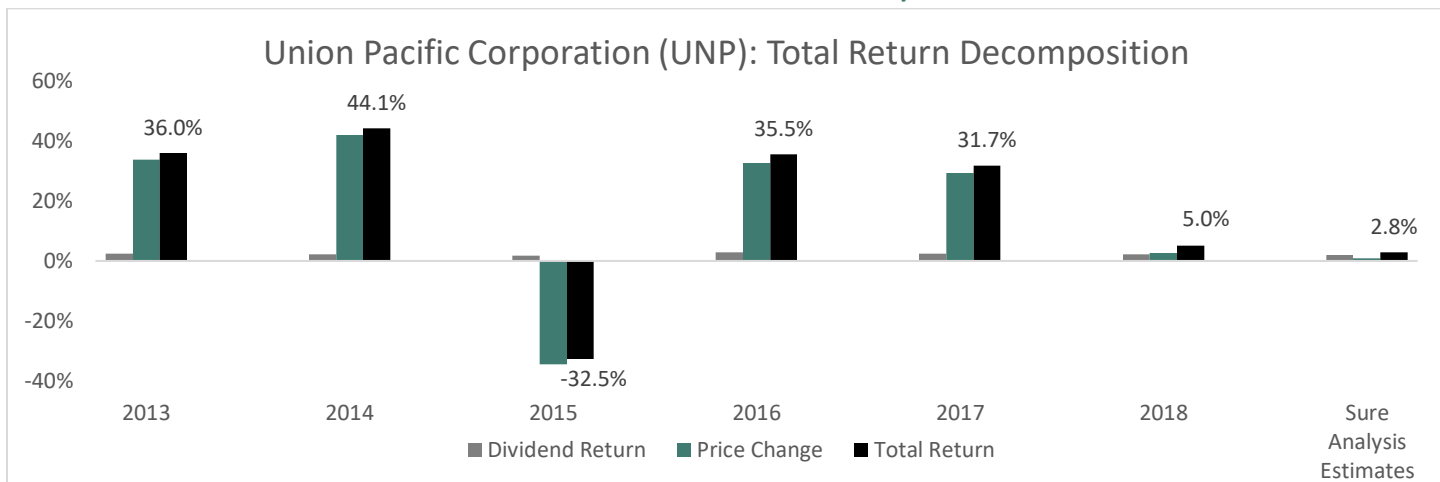
Union Pacific's earnings were impacted during the last recession. A decline in earnings would be likely to occur in the next recession as many of the products that the company transports, like automotive vehicles, are in high demand when the U.S. economy is strong. Union Pacific's dividend payout ratio 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

Following first quarter results, shares of Union Pacific Corporation are expected to offer a total annual return of just 2.8% through 2024. The stock is up nearly 28% this year, which has removed much of the anticipated total return. Union Pacific posted mixed results in the quarter, with gains in industrial and premium being more than offset by energy and agricultural products. The improvement in operating ratio is a positive sign. That being said, we encourage investors to wait for a pullback before purchasing shares of Union Pacific as the stock receives a sell recommendation from Sure Dividend at this time. We should note that the current share price is very close to our 2024 price target of \$183.

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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