



Union Pacific Corporation (UNP)

Updated January 21st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$208	5 Year CAGR Estimate:	3.9%	Market Cap:	\$141 billion
Fair Value Price:	\$164	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	2/26/2021 ¹
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Dividend Payment Date:	3/30/2021 ²
Dividend Yield:	1.9%	5 Year Price Target	\$230	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	10.2%

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 generates \$21 billion in annual revenues.

On 1/21/2020, Union Pacific reported fourth quarter and full year earnings results. GAAP earnings-per-share grew 1.5% to \$2.05, but missed estimates by \$0.15. Revenue fell 1.3% to \$5.1 billion, but was \$40 million higher than expected. For the year, earnings-per-share decreased 6% to \$7.88 and was \$0.07 lower than we had projected. Revenue decreased 10% to \$19.5 billion. The adjusted operating ratio improved 410 basis points to 55.6%, an all-time quarterly low.

Bulk volumes were flat for the quarter while revenue improved 1%. Grain products benefited from strong demand for export grain, leading to a 20% gain in volumes. Coal continues to be weak as volumes were down 16% year-over-year. Industrial revenues were down 7% on a 6% decline in volumes. Forest products had an 11% improvement in volumes due to housing starts, but energy was lower by 16%. Fewer stone and gravel shipments drove a 7% decline in volumes for metals and minerals. Premium revenues were higher by 5% as a 4% decline in average revenue per car partially offset a 9% increase in volumes. Intermodal volumes were up 12% compared to the previous year due to higher retail demand and growth in e-commerce. Lower fuel prices were a 90-basis point benefit to the operating ratio. Also contributing was a 1% increase in daily miles per car, 13% improvement in locomotive productive and an 18% increase in workforce productivity. Analysts expect the company's EPS to grow 22% to \$9.64 in 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.36	\$4.14	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$7.88	\$9.64	\$13.52
DPS	\$0.97	\$1.25	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$3.88	\$4.95
Shares³	960	939	912	883	849	816	781	755	695	674	674	650

Earnings-per-share have increased at a rate of almost 9% 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 7.8% over the past five years.

The company has compounded assets per share by 7% over the last decade. Erring on the side of caution, we expect Union Pacific to grow earnings-per-share by 7% over the next five years as the company should see earnings move meaningfully higher after recovering from the COVID-19 pandemic.

Union Pacific has increased its dividend for each of the past 13 years. The company had been very aggressive in raising its dividend prior to 2020. The most recent increase raised the dividend 10.2% for the payment made 9/30/2019. The company did not increase its dividend in 2020, most likely due to the impact of the COVID-19 pandemic on results.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.1	16.0	17.6	18.3	17.4	19.1	18.1	18.1	20.1	26.4	21.6	17.0
Avg. Yld.	2.1%	2.0%	1.9%	2.2%	2.6%	2.2%	2.1%	2.1%	2.1%	1.9%	1.9%	2.2%

Shares of Union Pacific have increased \$18, or 9.5%, since our 10/22/2020 update. Shares trade with a price-to-earnings multiple of 21.6 based off of our expected earnings-per-share for the current year. We have raised our five-year valuation target to 17 from 16 to better reflect the quality of earnings results over the past few years as well as the expected growth following a COVID-19 recovery. If the stock reverts to our target multiple by 2026, then valuation would likely be a 4.7% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

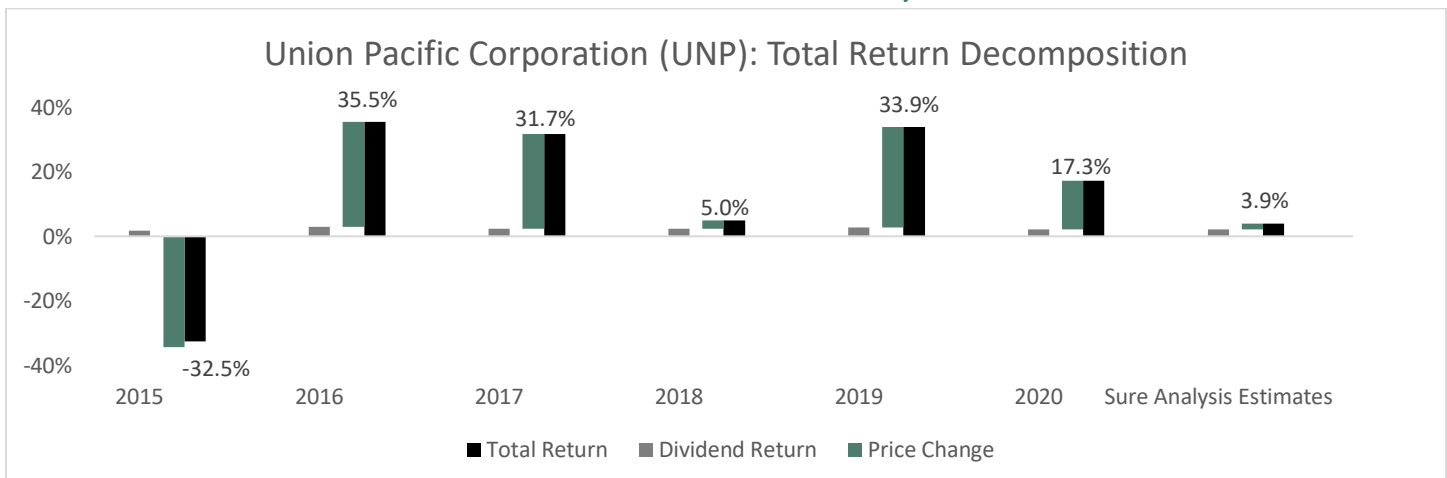
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	30%	31%	33%	41%	45%	43%	39%	46%	49%	40%	37%

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. 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 fourth quarter results, Union Pacific Corporation is expected to offer a total annual return of 3.9% through 2026, up from our previous estimate of 1.1%. COVID-19 impacted results for the year, but Union Pacific is expected to see high double-digit growth in EPS in 2021. The company had several pockets of strength during the most recent quarter, including intermodal, forest products and grain. Union Pacific continues to see its operating ratio improve as well. We have raised our five-year price target \$52 to \$230 due to EPS estimates for the current year and a higher valuation target. We now view shares as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	16,965	19,557	20,926	21,963	23,988	21,813	19,941	21,240	22,832	21,708
Gross Profit	5,700	6,506	7,533	8,295	9,677	8,976	8,240	9,054	9,539	9,614
Gross Margin	33.6%	33.3%	36.0%	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%
D&A Exp.	1,487	1,617	1,760	1,777	1,904	2,012	2,038	2,105	2,191	2,216
Operating Profit	4,981	5,724	6,745	7,446	8,753	8,052	7,243	8,106	8,517	8,554
Op. Margin	29.4%	29.3%	32.2%	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%
Net Profit	2,780	3,292	3,943	4,388	5,180	4,772	4,233	10,712	5,966	5,919
Net Margin	16.4%	16.8%	18.8%	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%
Free Cash Flow	1,623	2,697	2,423	3,327	3,039	2,694	4,020	3,992	5,249	5,156
Income Tax	1,653	1,972	2,375	2,660	3,163	2,884	2,533	(3,080)	1,775	1,828

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	43,088	45,096	47,153	49,731	52,372	54,600	55,718	57,806	59,147	61,673
Cash & Equivalents	1,086	1,217	1,063	1,432	1,586	1,391	1,277	1,275	1,273	831
Acc. Receivable	1,184	1,401	1,331	1,414	1,611	1,356	1,258	1,493	1,755	1,595
Inventories	534	614	660	653	712	736	717	749	742	751
Total Liabilities	25,325	26,518	27,276	28,506	31,183	33,898	35,786	32,950	38,724	43,545
Accounts Payable	677	819	825	803	877	743	955	1,013	872	749
Long-Term Debt	9,242	8,906	8,997	9,577	11,413	14,201	15,007	16,944	22,391	25,200
Total Equity	17,763	18,578	19,877	21,225	21,189	20,702	19,932	24,856	20,423	18,128
D/E Ratio	0.52	0.48	0.45	0.45	0.54	0.69	0.75	0.68	1.10	1.39

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.5%	7.5%	8.5%	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%
Return on Equity	16.1%	18.1%	20.5%	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%
ROIC	10.4%	12.1%	14.0%	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%
Shares Out.	983	960	939	912	883	849	816	781	755	695
Revenue/Share	16.87	19.96	21.96	23.58	26.62	25.09	23.87	26.49	30.27	30.74
FCF/Share	1.61	2.75	2.54	3.57	3.37	3.10	4.81	4.98	6.96	7.30

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

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