



Union Pacific Corporation (UNP)

Updated April 23rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$218	5 Year CAGR Estimate:	2.8%	Market Cap:	\$145 billion
Fair Value Price:	\$162	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	5/28/2021 ¹
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.7%	Dividend Payment Date:	6/30/2021 ²
Dividend Yield:	1.8%	5 Year Price Target	\$228	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 4/23/2021, Union Pacific announced first quarter earnings results. Revenue fell 4.4% to \$5 billion, which was \$30 million below estimates. GAAP earnings-per-share of \$2.00 was 7% lower than the prior year and \$0.06 lower than expected. Union Pacific's operating ratio was 110 basis points higher to 60.1% and compared unfavorably to consensus estimates of 59.1%.

Bulk volumes decreased 2% while revenue was lower by 1%. Grain exports remain very strong as volumes were higher by 16%. Coal demand remains weak, causing volumes to decline 16%. Declines in the Industrial category accelerated sequentially as volumes and revenue were both down double-digits. One positive was a 7% increase in shipments of Forest Products due to demand for housing starts. Energy volumes fell 14% while severe weather was the primary driver of a 9% decline in Industrial Chemicals and Plastics. Weak demand for stone and gravel shipments resulted in a 16% decrease for Metals and Minerals. Premium volumes and revenue managed to hold up, growing 6% and 2%, respectively. Automotive declines, due to a shortage of semi-conductors, only partially offset a 12% increase in Intermodal, which continues to benefit from strong e-commerce spending.

Analysts expect the company to produce earnings-per-share of \$9.55 in 2021, down from \$9.64 previously.

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	\$8.12	\$9.55	\$13.39
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	667	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 10.3% 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	14.5	14.1	16	17.6	18.3	17.4	19.1	18.1	20.1	21.9	22.8	17.0
Avg. Yld.	2.0%	2.1%	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.8%	2.2%

Shares of Union Pacific have increased \$10, or 4.8%, since our 1/21/2021 update. Shares trade with a price-to-earnings multiple of 22.8 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 5.7% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

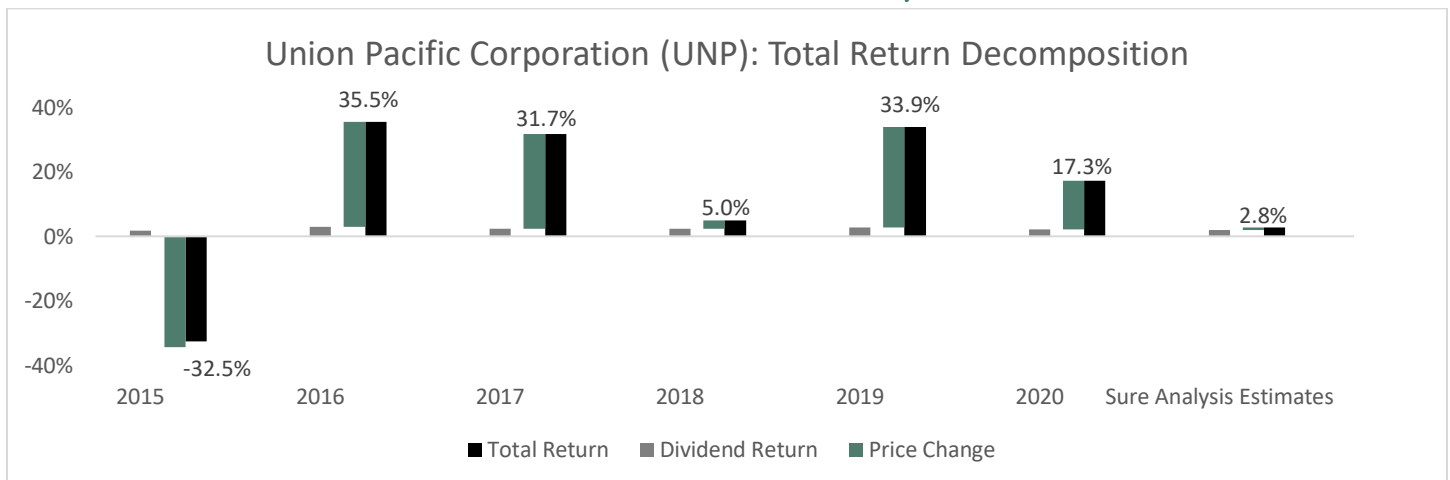
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	30%	31%	33%	41%	45%	43%	39%	46%	49%	41%	37%

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

Union Pacific Corporation is expected to offer a total annual return of 2.8% through 2026, down from our previous estimate of 3.9%. Union Pacific showed a moderate decline for revenue and earnings-per-share compared to the prior year. There are portions of the company performing well, particularly Intermodal and Forest Products, but most product categories were weaker compared to the prior year. Last year, the COVID-19 pandemic was a headwind to results. While this effect has decreased somewhat, semi-conductor shortages and severe weather impacted the company in the first quarter. We have lowered our 2026 price target \$2 to \$228 and continue to view the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	19,557	20,926	21,963	23,988	21,813	19,941	21,240	22,832	21,708	19,533
Gross Profit	6,506	7,533	8,295	9,677	8,976	8,240	9,054	9,539	9,614	9,179
Gross Margin	33.3%	36.0%	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%
D&A Exp.	1,617	1,760	1,777	1,904	2,012	2,038	2,105	2,191	2,216	2,210
Operating Profit	5,724	6,745	7,446	8,753	8,052	7,243	8,106	8,517	8,554	7,834
Op. Margin	29.3%	32.2%	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%
Net Profit	3,292	3,943	4,388	5,180	4,772	4,233	10,712	5,966	5,919	5,349
Net Margin	16.8%	18.8%	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%
Free Cash Flow	2,697	2,423	3,327	3,039	2,694	4,020	3,992	5,249	5,156	5,613
Income Tax	1,972	2,375	2,660	3,163	2,884	2,533	(3,080)	1,775	1,828	1,631

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	45,096	47,153	49,731	52,372	54,600	55,718	57,806	59,147	61,673	62,398
Cash & Equivalents	1,217	1,063	1,432	1,586	1,391	1,277	1,275	1,273	831	1,799
Acc. Receivable	1,401	1,331	1,414	1,611	1,356	1,258	1,493	1,755	1,595	1,505
Inventories	614	660	653	712	736	717	749	742	751	638
Total Liabilities	26,518	27,276	28,506	31,183	33,898	35,786	32,950	38,724	43,545	45,440
Accounts Payable	819	825	803	877	743	955	1,013	872	749	612
Long-Term Debt	8,906	8,997	9,577	11,413	14,201	15,007	16,944	22,391	25,200	26,729
Total Equity	18,578	19,877	21,225	21,189	20,702	19,932	24,856	20,423	18,128	16,958
D/E Ratio	0.48	0.45	0.45	0.54	0.69	0.75	0.68	1.10	1.39	1.58

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	8.5%	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%
Return on Equity	18.1%	20.5%	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%
ROIC	12.1%	14.0%	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%
Shares Out.	960	939	912	883	849	816	781	755	695	674
Revenue/Share	19.96	21.96	23.58	26.62	25.09	23.87	26.49	30.27	30.74	28.76
FCF/Share	2.75	2.54	3.57	3.37	3.10	4.81	4.98	6.96	7.30	8.27

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

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