Union Pacific Corporation (UNP)

Updated July 23rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	$220	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$144 billion
Fair Value Price:	$169	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	8/27/2021[1]
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.1%	**Dividend Payment Date:**	9/30/2021
Dividend Yield:	1.9%	**5 Year Price Target**	$237	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.3%

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 generates more than $21 billion in annual revenues.

Union Pacific reported second quarter earnings results on 7/22/2021. Revenue surged 29.7% to $5.5 billion, coming in $110 million higher than expected. GAAP earnings-per-share of $2.72 was an improvement of $1.05, or 63%, from the prior year and $0.19 above estimates. Union Pacific's operating ratio of 55.1% was a 590-basis point improvement from the prior year and a 450-basis point improvement from Q2 2019.

For Bulk products, revenue grew 19% due to a 13% increase in volumes and a 5% improvement in average revenue per car load. Grain exports remain in high demand as volumes improved 22%. Coal demand improved as volumes were higher by 14%. All product categories were higher by at least a mid-single digit compared to Q1 2021 except for grain, which was flat. The Industrial category had revenue growth of 24% as volumes added 15% and average revenue per car load was higher by 8%. Ongoing strength in housing helped drive a 28% increase in forest products. Higher industrial production led to a 25% and 11% increase in volumes for metals and minerals and industrial chemicals and plastics, respectively. Energy and specialized volumes were up 20% on a recovery in the Gulf Coast region. Except for energy, which was down 1%, all product categories had at least 7% volume growth on a sequential basis. The Premium category had 50% revenue growth on account of a 31% gain in volumes and a 14% increase in average revenue per car load. Despite a semiconductor shortage, automotive grew 119%. Intermodal volumes were up 21% on higher retail spending and strength in e-commerce. Compared to Q1 2021, automotive volumes were lower by 4% while intermodal increased 10%. Analysts expect the company to produce earnings-per-share of $9.95 in 2021, up from $9.55 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	***$9.95***	***$13.96***
DPS	$0.97	$1.25	$1.48	$1.91	$2.20	$2.26	$2.48	$3.06	$3.70	$3.88	***$4.28***	***$5.46***
Shares[2]	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.

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[1] Estimated ex-dividend date

[2] In millions of shares

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Union Pacific has increased its dividend for each of the past 14 years. The company had been very aggressive in raising its dividend prior to 2020. The most recent increase raised the dividend 10.3% for the payment made 6/30/2021. The company did not increase its dividend in 2020, due to the impact of the COVID-19 pandemic on results.

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	***22.1***	***17.0***
Avg. Yld.	2.0%	2.1%	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	***1.9%***	***2.3%***

Shares of Union Pacific have increased $2, or 0.9%, since our 4/23/2021 update. Shares trade with a price-to-earnings multiple of 22.1 based off of our expected earnings-per-share for the current year. We reaffirm our five-year valuation target of 17 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 5.1% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

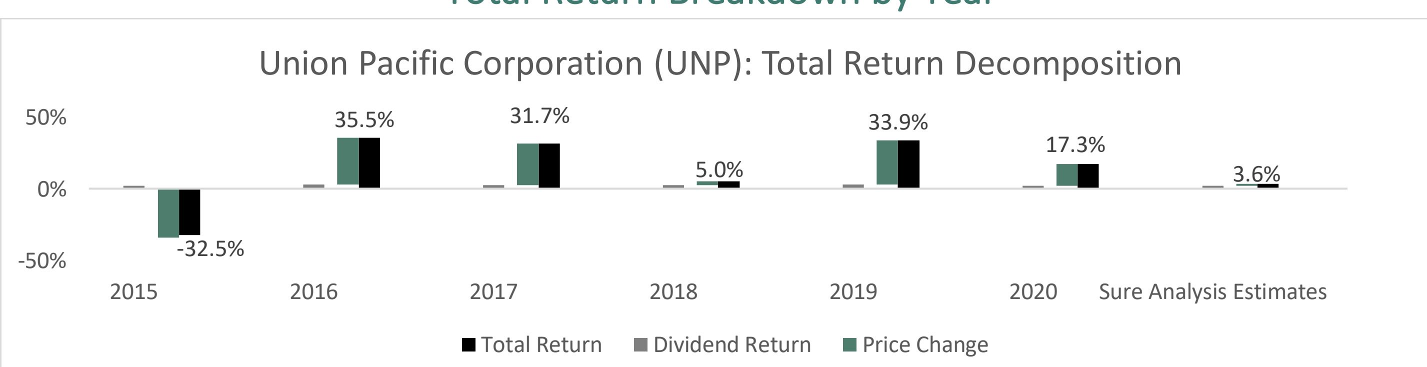
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	30%	31%	33%	41%	45%	43%	39%	46%	49%	***43%***	***39%***

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. 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 3.6% through 2026, up from our previous estimate of 2.8%. Union Pacific faced fairly easy comparable results from the prior year and estimates for the quarter were high, but the company showed significant growth in almost every area. Even compared to Q1 2021, volumes were higher almost across the board. The company's latest dividend increase is also a bullish sign in our view. We have raised our 2026 price target $9 to $237 as a result of updated EPS estimates, but we maintain our holding rating on Union Pacific due to projected returns.

Total Return Breakdown by Year



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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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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.