# CSX Corporation (CSX)

*Updated October 24th, 2021, by Josh Arnold*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $35 | **5 Year CAGR Estimate:** | 4.5% | **Market Cap:** | $79 B |
| **Fair Value Price:** | $28 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 11/27/21[1] |
| **% Fair Value:** | 125% | **5 Year Valuation Multiple Estimate:** | -4.4% | **Dividend Payment Date:** | 12/15/21[1] |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $41 | **Years Of Dividend Growth:** | 16 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Last Dividend Increase:** | 8.3% |

## Overview & Current Events

CSX can trace its roots all the way back to 1827 when the B&O Railroad was first chartered. From just 13 miles of track, CSX has grown to cover 23 states and more than 20,000 route miles. CSX provides rail, rail-to-truck and intermodal transport services. The company's market capitalization is $79 billion after a recent rally in the stock, and it should produce nearly $12 billion in revenue in 2021.

CSX executed a three-for-one stock split in June of 2021; our tables and calculations have been updated accordingly.

CSX reported third quarter earnings on October 20th, 2021, with results coming in ahead of expectations on both revenue and profits. The company reported net earnings of $968 million, or 43 cents per share, which was a 34% improvement year-over-year. Operating ratio was 56.4% in Q3, down 50bps from the year-ago period, and well ahead of consensus estimates of 58.3%. Total revenue was up 24% to $3.3 billion, as growth in all its major business lines and inclusion of a recent acquisition's results helped. Quality Carriers' additional revenue was about one-third of the total revenue increase, with the balance being organic growth.

CSX noted supply chain challenges continue to impact most of its markets, which is driving volatility in freight volumes and pricing. Merchandise revenue was up 6%, which was offset by declines in autos and the ongoing semiconductor shortages. Industrial and construction markets such as metals and equipment led to strength, as did chemicals.

The company maintained its prior outlook for double-digit revenue growth for the year without the impact of the Quality Carriers acquisition. We now expect $1.55 in earnings-per-share for this year, an improvement of a dime over our prior estimate.

## Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $0.56 | $0.60 | $0.61 | $0.64 | $0.67 | $0.60 | $0.77 | $1.28 | $1.39 | $1.20 | ***$1.55*** | ***$2.28*** |
| **DPS** | $0.15 | $0.18 | $0.20 | $0.21 | $0.23 | $0.24 | $0.26 | $0.29 | $0.32 | $0.35 | ***$0.37*** | ***$0.62*** |
| **Shares[2]** | 3,147 | 3,063 | 3,027 | 2,976 | 2,898 | 2,784 | 2,670 | 2,580 | 2,334 | 2,304 | ***2,256*** | ***2,000*** |

CSX's earnings-per-share has grown somewhat unpredictably over the past decade as its fortunes are tied to rail volumes and pricing strength, both of which are heavily dependent upon particular industries and economic conditions. CSX stands to gain in the form of modest revenue increases in the coming years, helping to fuel our estimate of 8% earnings-per-share growth annually. The remainder will come from improved operating efficiency leading to higher margins, as well as sizable buyback spending, although this was nearly halted in 2020. We see the share count declining in the mid-single digits annually as CSX generates strong free cash flow and puts it to use. We see a path to recovery that has cleared up in the past couple of quarters and believe that CSX's growth will pick up substantially in 2021 and beyond.

Likewise, we see the dividend increasing at roughly the rate of earnings, reaching $0.62 in five years from today's level of $0.37. CSX has put buybacks first in recent years but with a much-reduced capex budget as part of its operational

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[1] Estimated date

[2] Share count in millions

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efficiency initiatives, more cash should be freed up for dividend increases. With the payout ratio still very low, CSX has plenty of room to continue its streak of dividend increases while still affording it the ability to buy back stock.

## Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 14.0 | 12.1 | 13.6 | 16.1 | 15.7 | 15.5 | 21.8 | 16.8 | 17.2 | 20.6 | ***22.6*** | ***18.0*** |
| **Avg. Yld.** | 1.9% | 2.5% | 2.4% | 2.0% | 2.2% | 2.6% | 1.6% | 1.4% | 1.3% | 1.4% | ***1.1%*** | ***1.5%*** |

CSX's price-to-earnings multiple is still quite elevated and stands at 22.6 times this year's estimated earnings. This is in excess of our estimate of fair value of 18 times earnings, so we continue to see a sizable headwind to total returns from the valuation moving forward. We expect the yield to move up to 1.5% over time from the current 1.1%, stemming from a higher dividend and lower valuation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 26% | 30% | 32% | 33% | 35% | 40% | 34% | 23% | 23% | 29% | ***24%*** | ***27%*** |

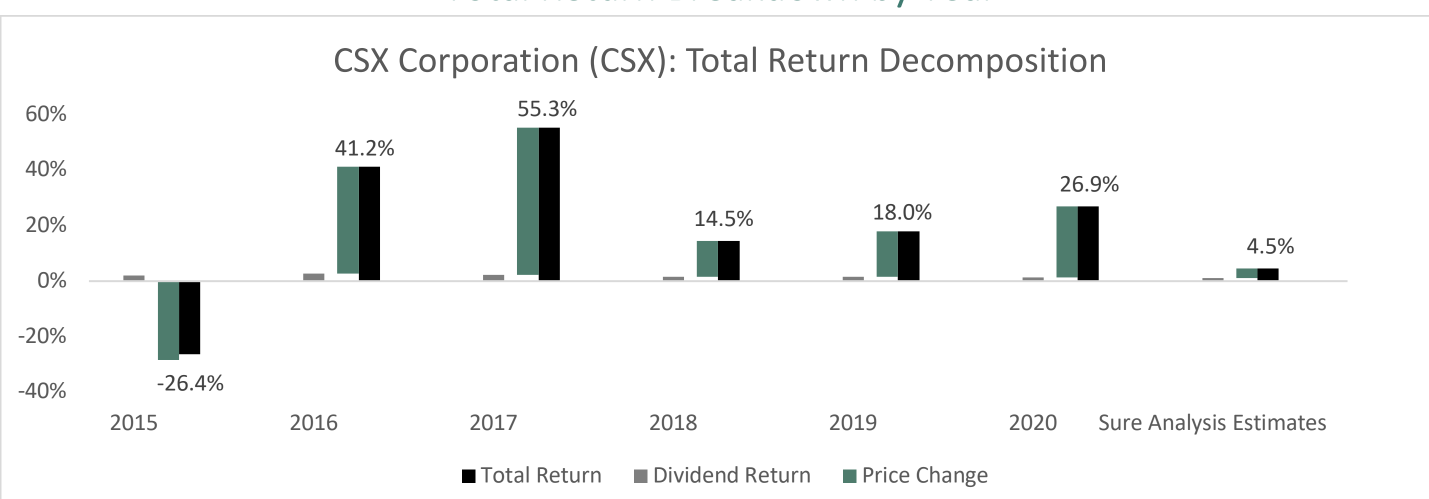
CSX's payout ratio remains low and as a result, is well covered. Indeed, its dividend safety is outstanding, but we note that the company has made it clear buybacks take priority over dividend growth.

The company's competitive advantage is in its lean operating structure, as well as its dominance in its service area. CSX looks poised to gain from its leverage to intermodal transport and the coal export market, although these things will not save it from recessions; rail operators are particularly sensitive to economic conditions and we see that as the key risk to owning CSX in the coming years, particularly considering the pandemic. That weakness should be temporary, though, and we forecast a robust rebound in earnings for 2021.

## Final Thoughts & Recommendation

In our view, CSX is still trading above fair value. It could see total annual returns in the next five years of 4.5%, consisting of the low current yield, 8% earnings growth and a meaningful headwind from the valuation. CSX could therefore be appropriate for dividend growth investors as well as those seeking earnings growth, but the low current yield would make it unattractive for those seeking high current income. In addition, the valuation has kept CSX out of value stock territory once again. Given these factors, we reiterate the stock at a hold rating.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 11,795 | 11,763 | 12,026 | 12,669 | 11,811 | 11,069 | 11,408 | 12,250 | 11,937 | 10,583 |
| Gross Profit | 3,470 | 3,464 | 3,473 | 3,613 | 3,544 | 3,363 | 3,741 | 4,773 | 4,874 | 4,362 |
| Gross Margin | 29.4% | 29.4% | 28.9% | 28.5% | 30.0% | 30.4% | 32.8% | 39.0% | 40.8% | 41.2% |
| D&A Exp. | 976 | 1,059 | 1,104 | 1,151 | 1,208 | 1,301 | 1,315 | 1,331 | 1,349 | 1,383 |
| Operating Profit | 3,470 | 3,464 | 3,473 | 3,613 | 3,544 | 3,363 | 3,741 | 4,773 | 4,874 | 4,362 |
| Operating Margin | 29.4% | 29.4% | 28.9% | 28.5% | 30.0% | 30.4% | 32.8% | 39.0% | 40.8% | 41.2% |
| Net Profit | 1,854 | 1,863 | 1,864 | 1,927 | 1,968 | 1,714 | 5,471 | 3,309 | 3,331 | 2,765 |
| Net Margin | 15.7% | 15.8% | 15.5% | 15.2% | 16.7% | 15.5% | 48.0% | 27.0% | 27.9% | 26.1% |
| Free Cash Flow | 1,194 | 605 | 954 | 894 | 808 | 643 | 1,432 | 2,896 | 3,193 | 2,637 |
| Income Tax | 1,086 | 1,108 | 1,058 | 1,117 | 1,170 | 1,027 | -2,329 | 995 | 985 | 862 |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 29,344 | 30,723 | 31,782 | 33,053 | 34,745 | 35,414 | 35,739 | 36,729 | 38,257 | 39,793 |
| Cash & Equivalents | 783 | 784 | 592 | 669 | 628 | 603 | 401 | 858 | 958 | 3,129 |
| Acc. Receivable | 1,000 | 1,114 | 1,052 | 1,129 | 982 | 938 | 793 | 828 | 769 | 700 |
| Inventories | 240 | 274 | 252 | 273 | 350 | 407 | 372 | 263 | 261 | 302 |
| Goodwill & Int. | 64 | 64 | 64 | 63 | 63 | 63 | --- | --- | --- | --- |
| Total Liabilities | 20,876 | 21,587 | 21,278 | 21,877 | 23,077 | 23,720 | 21,018 | 24,149 | 26,394 | 26,683 |
| Accounts Payable | 1,018 | 948 | 957 | 845 | 764 | 806 | 847 | 949 | 1,043 | 809 |
| Long-Term Debt | 9,241 | 9,832 | 9,555 | 9,742 | 10,535 | 11,293 | 11,809 | 14,757 | 16,238 | 16,705 |
| Total Equity | 8,455 | 9,122 | 10,483 | 11,152 | 11,652 | 11,679 | 14,705 | 12,563 | 11,848 | 13,101 |
| D/E Ratio | 1.09 | 1.08 | 0.91 | 0.87 | 0.90 | 0.97 | 0.80 | 1.17 | 1.37 | 1.28 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 6.5% | 6.2% | 6.0% | 5.9% | 5.8% | 4.9% | 15.4% | 9.1% | 8.9% | 7.1% |
| Return on Equity | 21.6% | 21.2% | 19.0% | 17.8% | 17.3% | 14.7% | 41.5% | 24.3% | 27.3% | 22.2% |
| ROIC | 10.6% | 10.2% | 9.6% | 9.4% | 9.1% | 7.6% | 22.1% | 12.3% | 12.0% | 9.5% |
| Shares Out. | 3,147 | 3,063 | 3,027 | 2,976 | 2,898 | 2,784 | 2,670 | 2,580 | 2,334 | 2,304 |
| Revenue/Share | 3.61 | 3.77 | 3.93 | 4.21 | 4.00 | 3.89 | 4.16 | 4.74 | 4.99 | 4.59 |
| FCF/Share | 0.37 | 0.19 | 0.31 | 0.30 | 0.27 | 0.23 | 0.52 | 1.12 | 1.33 | 1.14 |

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