



Union Pacific Corporation (UNP)

Updated January 20th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$244	5 Year CAGR Estimate:	5.3%	Market Cap:	\$157 billion
Fair Value Price:	\$204	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	2/25/2022 ¹
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date:	3/30/2022 ²
Dividend Yield:	1.9%	5 Year Price Target	\$287	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 \$23 billion in annual revenues.

Union Pacific reported fourth quarter and full year earnings results on 1/20/2022. For the quarter, revenue improved 11.5% to \$5.53 billion, coming in \$120 million higher than expected. GAAP earnings-per-share of \$2.66 was an improvement of \$0.30, or 12.7%, from the prior year and \$0.03 above estimates. Union Pacific's operating ratio of 57.4% was 180 basis points higher than the prior year, but down 230 basis points from Q4 2019. For the year, revenue grew 11.6% to \$21.8 billion while earnings-per-share of \$9.96 was a 22% increase from the prior year.

For Bulk products, revenue grew 16% due to a 5% increase in volume and a 10% improvement in average revenue per car load. Grain export fell 1% due to weaker Gulf exports. Coal demand continues to be strong with revenue up 13%. Revenue for the Industrial category grew 22% as volume was up 8% and average revenue per car load improved 6%. Paper demand drove a 7% gain in forest products. Metals & Minerals continues to act well as strong demand for metals and rock drove an 18% improvement. The Premium category grew 1% as a 17% benefit from higher prices was nearly offset by a 14% decline in volume. Automotive continues to struggle, with revenue dropping 10% while intermodal fell 15%. The good news is that automotive was up 10% while the decline in intermodal wasn't as steep as the third-quarter of 2021.

Analysts expect the company to produce earnings-per-share of \$11.36 for 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.14	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$8.12	\$9.96	\$11.36	\$15.93
DPS	\$1.25	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$4.29	\$4.72	\$6.62
Shares³	939	912	883	849	816	781	755	695	674	667	642	625

Earnings-per-share have increased at a rate of more than 10% per year over the past decade, though much of this growth occurred over the past few years. Earnings have increased at a rate of 14.4% over the past five years.

We believe that an earnings-per-share growth rate of 7% takes into account the quality of the firm and strong results over the past few years while reconciling that earnings-per-share are starting from a high base.

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 company did not increase its dividend in 2020, due to the impact of the COVID-19

¹ Estimated ex-dividend date

² Estimated ex-dividend date

³ In millions of shares

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pandemic on the business, though the dividend growth streak continued due to the timing of payments. The company raised its dividend for a second time in during 2021, this time by 10.3% for the payment made 12/30/2021.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.1	16	17.6	18.3	17.4	19.1	18.1	20.1	21.9	25.3	21.5	18.0
Avg. Yld.	2.1%	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	1.9%	2.3%

Shares of Union Pacific have increased \$13, or 5.6%, since our 10/21/2021 update. Shares trade with a price-to-earnings multiple of 21.5 based off of our expected earnings-per-share for the current year. We are raising our five-year valuation target of 18 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 2027, then valuation would likely be a 3.5% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

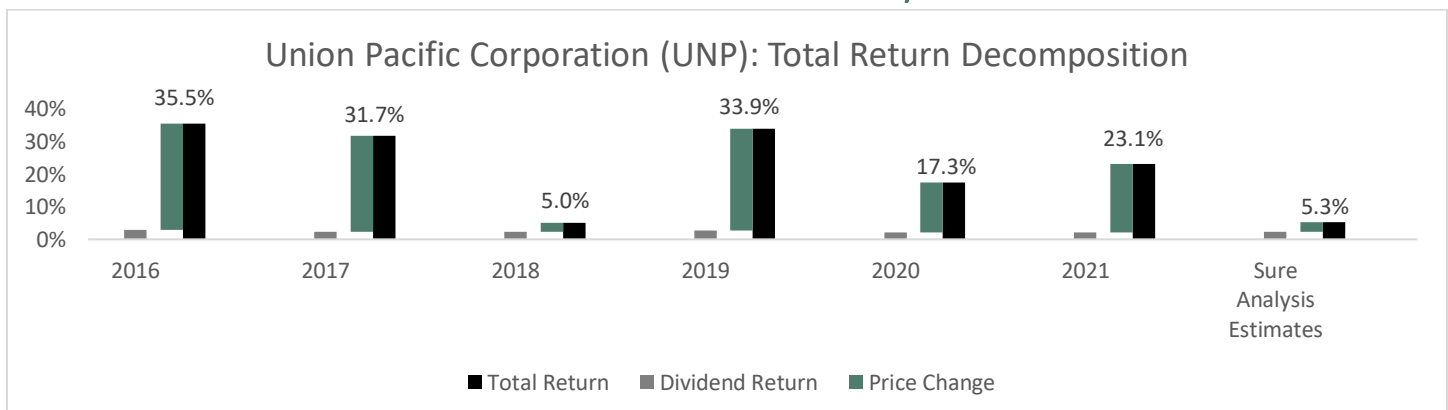
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	31%	33%	41%	45%	43%	39%	46%	49%	43%	42%	42%

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 5.3% through 2027, up from our previous estimate of 2.5%. Our estimate stems from a 7% earnings growth rate and 1.9% starting yield that are offset by a low single-digit headwind from multiple reversion. Union Pacific ended 2021 on a positive note, seeing double-digit top- and bottom-line growth from the prior year. Automotive and intermodal remained challenged, due to semi-conductor shortages and port congestion, respectively, but they were both improved on a sequential basis. We have raised our five-year price target \$50 to \$287 due to estimates for 2022 and now view shares 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
LTD/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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