



Union Pacific Corporation (UNP)

Updated April 24th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$234	5 Year CAGR Estimate:	6.8%	Market Cap:	\$147 B
Fair Value Price:	\$211	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	5/25/22 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	6/30/22 ²
Dividend Yield:	2.0%	5 Year Price Target	\$296	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 \$24 billion in annual revenues.

On April 21st, 2022, Union Pacific announced first quarter earnings results for the period ending March 31st, 2022. Revenue increased 17.2% to \$5.86 billion, beating estimates by \$100 million. GAAP earnings-per-share of \$2.57 compared favorably to \$2.00 in the prior year and was \$0.01 above expectations. Union Pacific's operating ratio of 59.4% was a 70-basis point improvement from the prior year.

Revenue for Bulk products grew 21% due to a 12% increase in volume and a high single-digit gain in average revenue per car. Grain revenue increased 14% due in part to higher demand for biofuel production. Coal and renewables revenue was higher by 49% as demand continues to be strong. Revenue for the Industrial category increased 16% as volume was up 11% and average revenue per car load improved by 5%. Metals & Minerals continues to act well as strong demand for metals and rock drove a 29% increase in revenue. Higher industrial production led to a 20% increase in Industrial Chemicals & Plastics. The Premium category experienced a 14% increase in revenue as a 17% gain in average revenue per car more than offset a 3% decrease in volume. Volume decline was a drastic improvement on a sequential basis. An increase in auto parts led to a 12% improvement in revenue from Automotive. Volume was also positive. Intermodal grew 15%, but still suffers from port congestion.

Following positive results for the quarter, we expect that Union Pacific will earn \$11.72 per share in 2022, up from \$11.36 previously.

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	\$11.72	\$16.44
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	20.0	18.0
Avg. Yld.	2.1%	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.0%	2.2%

Shares of Union Pacific have declined \$10, or 4.1%, since our October 21st, 2021 update. Shares trade with a price-to-earnings multiple of 20.0 based off of our expected earnings-per-share for the current year. We reaffirm our five-year valuation target of 18 as this better reflects 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 2.1% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

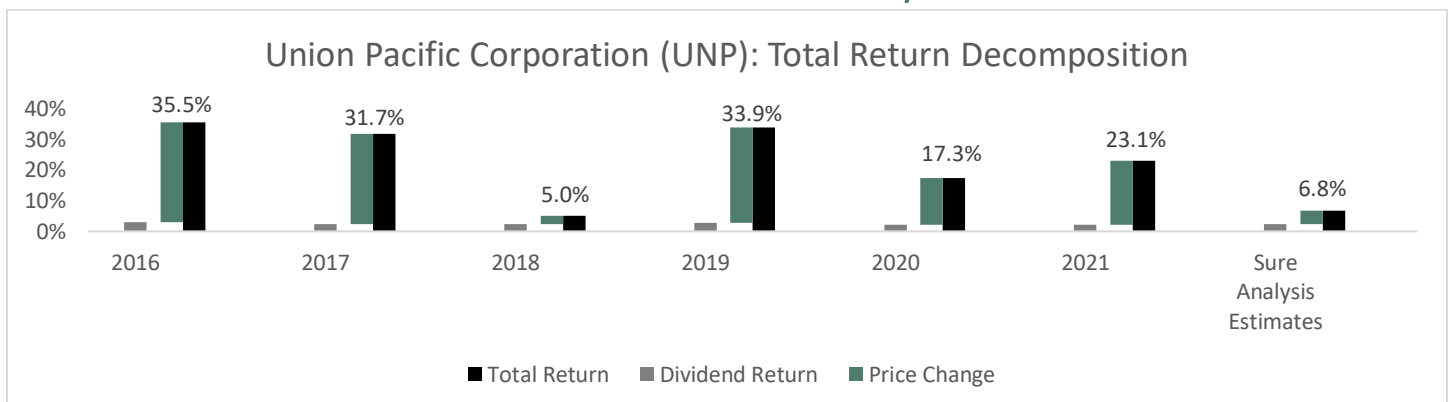
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	31%	33%	41%	45%	43%	39%	46%	49%	43%	40%	40%

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 now expected to offer a total annual return of 6.8% through 2027, up from our previous estimate of 5.3%. Our estimate stems from a 7% earnings growth rate and 2.0% starting yield that are offset by a low single-digit headwind from multiple reversion. Union Pacific's momentum at the end of the year continued into the first quarter as most product categories saw improvements in both revenue and volume. Some headwinds, such as port congestion, remain, but the automotive business has improved since the end of last year. We have raised our five-year price target \$9 to \$296 due to revised estimates for 2022, but continue to view Union Pacific as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20,926	21,963	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804
Gross Profit	7,533	8,295	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514
Gross Margin	36.0%	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%
D&A Exp.	1,760	1,777	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208
Operating Profit	6,745	7,446	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338
Op. Margin	32.2%	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%
Net Profit	3,943	4,388	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523
Net Margin	18.8%	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%
Free Cash Flow	2,423	3,327	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096
Income Tax	2,375	2,660	3,163	2,884	2,533	(3,080)	1,775	1,828	1,631	1,955

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	47,153	49,731	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525
Cash & Equivalents	1,063	1,432	1,586	1,391	1,277	1,275	1,273	831	1,799	960
Acc. Receivable	1,331	1,414	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722
Inventories	660	653	712	736	717	749	742	751	638	621
Total Liabilities	27,276	28,506	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364
Accounts Payable	825	803	877	743	955	1,013	872	749	612	752
Long-Term Debt	8,997	9,577	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393
Total Equity	19,877	21,225	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161
LTD/E Ratio	0.45	0.45	0.54	0.69	0.75	0.68	1.10	1.39	1.58	2.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.5%	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%
Return on Equity	20.5%	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%
ROIC	14.0%	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%
Shares Out.	939	912	883	849	816	781	755	695	674	667
Revenue/Share	21.96	23.58	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27
FCF/Share	2.54	3.57	3.37	3.10	4.81	4.98	6.96	7.30	8.27	9.30

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

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