CSX Corporation (CSX)

Updated October 25th, 2022, by Josh Arnold

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	11.6%	**Market Cap:**	$59 B
Fair Value Price:	$34	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/29/22
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.1%	**Dividend Payment Date:**	12/15/22
Dividend Yield:	1.4%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 $59 billion after a recent selloff in the stock, and it should produce close to $15 billion in revenue in 2022.

CSX released third quarter earnings on October 20th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to 52 cents, which was three cents ahead of expectations. Revenue was $3.9 billion, which was up 19% year-over-year, and beat estimates by $150 million. The company said the revenue beat was from higher fuel surcharges, pricing power, and a 2% increase in volumes. In addition, the company saw higher fees, such as storage revenue.

The company's operating ratio increased to 59.5% of revenue, which was partially due to the negative impact of a new union agreement. Expectation for operating ratio was 58.2%. Operating ratio is a measure of costs, so the lower the number, the better.

The company is expecting double-digit revenue and earnings growth for the year. We now see $1.90 in earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.60	$0.61	$0.64	$0.67	$0.60	$0.77	$1.28	$1.39	$1.20	$1.56	***$1.90***	***$2.54***
DPS	$0.18	$0.20	$0.21	$0.23	$0.24	$0.26	$0.29	$0.32	$0.35	$0.37	***$0.40***	***$0.67***
Shares[1]	3,063	3,027	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,217	***2,150***	***1,700***

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 6% 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 continue its improvement in 2022, with record earnings on tap.

Likewise, we see the dividend increasing at roughly the rate of earnings, reaching $0.67 in five years from today's level of $0.40. CSX has put buybacks first in recent years but with a much-reduced capex budget as part of its operational 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.

[1] Share count in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.1	13.6	16.1	15.7	15.5	21.8	16.8	17.2	20.6	21.0	***14.7***	***18.0***
Avg. Yld.	2.5%	2.4%	2.0%	2.2%	2.6%	1.6%	1.4%	1.3%	1.4%	1.1%	***1.4%***	***1.5%***

CSX's price-to-earnings multiple is much lower than our last update, given the share price has declined while earnings estimates are higher. Shares go for 14.7 times this year's estimated earnings. This is now markedly lower than our estimate of fair value of 18 times earnings, so we now see a sizable tailwind from the valuation. We expect the yield to remain about where it is for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	32%	33%	35%	40%	34%	23%	23%	29%	24%	***21%***	***27%***

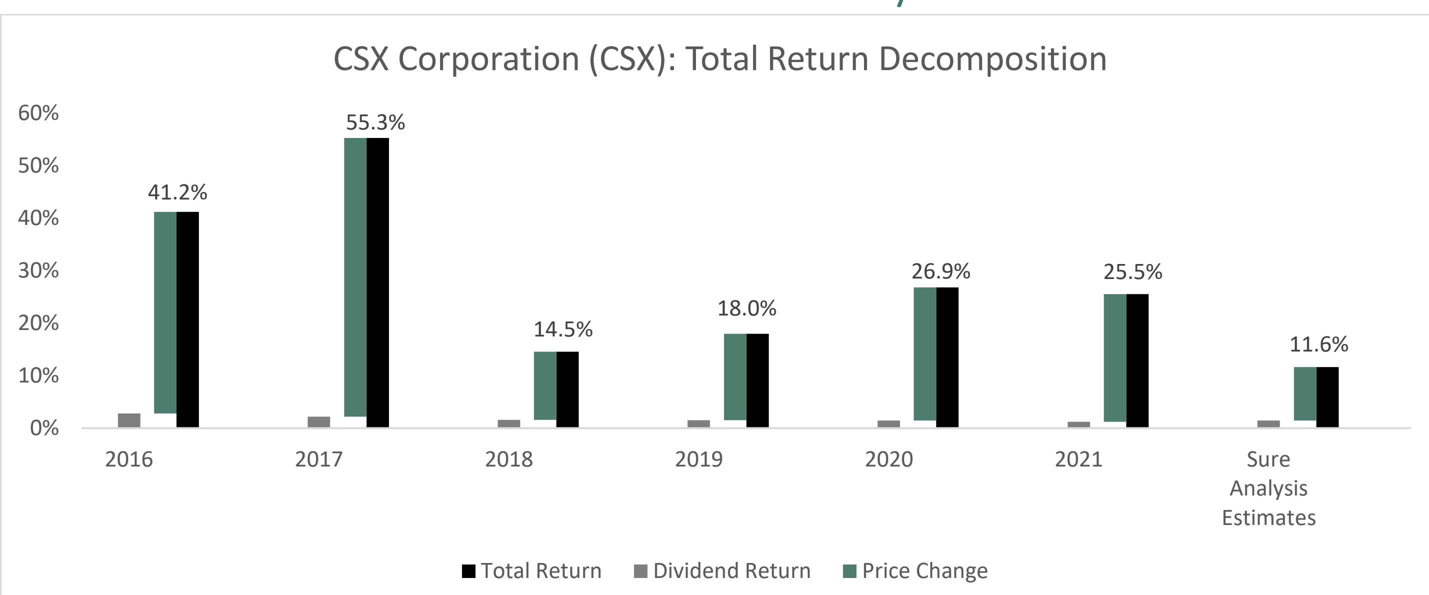
CSX's payout ratio remains low and as a result, is well covered. Indeed, its dividend safety is outstanding, but we note that the company has made it clear buybacks take priority over dividend growth.

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 was temporary, though, and we forecast more strong growth in 2022.

Final Thoughts & Recommendation

CSX is now trading well under fair value. It could see total annual returns in the next five years of 11.6%, consisting of the 1.4% current yield, 6% earnings growth and a 4.1% tailwind 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. However, improving total return prospects have us reiterating the stock at a buy rating.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,763	12,026	12,669	11,811	11,069	11,408	12,250	11,937	10,583	12,522
Gross Profit	3,464	3,473	3,613	3,544	3,363	3,741	4,773	4,874	4,362	5,140
Gross Margin	29.4%	28.9%	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%
D&A Exp.	1,059	1,104	1,151	1,208	1,301	1,315	1,331	1,349	1,383	1,420
Operating Profit	3,464	3,473	3,613	3,544	3,363	3,741	4,773	4,874	4,327	5,140
Operating Margin	29.4%	28.9%	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%
Net Profit	1,863	1,864	1,927	1,968	1,714	5,471	3,309	3,331	2,765	3,781
Net Margin	15.8%	15.5%	15.2%	16.7%	15.5%	48.0%	27.0%	27.9%	26.1%	30.2%
Free Cash Flow	605	954	894	808	643	1,432	2,896	3,193	2,637	3,308
Income Tax	1,108	1,058	1,117	1,170	1,027	-2,329	995	985	862	1,170

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	30,723	31,782	33,053	34,745	35,414	35,739	36,729	38,257	39,793	40,531
Cash & Equivalents	784	592	669	628	603	401	858	958	3,129	2,239
Acc. Receivable	1,114	1,052	1,129	982	938	793	828	769	700	937
Inventories	274	252	273	350	407	372	263	261	302	339
Goodwill & Int.	64	64	63	63	63	---	---	---	63	451
Total Liabilities	21,587	21,278	21,877	23,077	23,720	21,018	24,149	26,394	26,683	27,031
Accounts Payable	948	957	845	764	806	847	949	1,043	809	963
Long-Term Debt	9,832	9,555	9,742	10,535	11,293	11,809	14,757	16,238	16,705	16,366
Total Equity	9,122	10,483	11,152	11,652	11,679	14,705	12,563	11,848	13,101	13,490
LTD/E Ratio	1.08	0.91	0.87	0.90	0.97	0.80	1.17	1.37	1.28	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.2%	6.0%	5.9%	5.8%	4.9%	15.4%	9.1%	8.9%	7.1%	9.4%
Return on Equity	21.2%	19.0%	17.8%	17.3%	14.7%	41.5%	24.3%	27.3%	22.2%	28.4%
ROIC	10.2%	9.6%	9.4%	9.1%	7.6%	22.1%	12.3%	12.0%	9.5%	12.7%
Shares Out.	3,063	3,027	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,255
Revenue/Share	3.77	3.93	4.21	4.00	3.89	4.16	4.74	4.99	4.59	5.55
FCF/Share	0.19	0.31	0.30	0.27	0.23	0.52	1.12	1.33	1.14	1.47

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