



# Union Pacific Corporation (UNP)

Updated October 20<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$188	<b>5 Year CAGR Estimate:</b>	10.5%	<b>Market Cap:</b>	\$126 B
<b>Fair Value Price:</b>	\$198	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	11/30/22 <sup>1</sup>
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Dividend Payment Date:</b>	12/30/22 <sup>2</sup>
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$278	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 about \$25 billion in annual revenues.

On October 20<sup>th</sup>, 2022, Union Pacific announced third quarter earnings results for the period ending September 30<sup>th</sup>, 2022. Revenue grew 18% to \$6.57 billion, beating estimates by \$160 million. GAAP earnings-per-share of \$3.05 compared favorably to \$2.57 in the prior year. Union Pacific's operating ratio of 59.9% was 360 basis points higher than the prior year.

Revenue for Bulk products increased 16% due to a 14% gain in average revenue per car and a 2% improvement in volume. Coal and renewables revenue was higher by 5% while grain grew 3%. Revenue for the Industrial category grew 15% as volume was up 4% and average revenue per car load improved by 11%. Metals and minerals improved 7% due to construction growth while higher demand for Industrial chemicals and plastics drove an 8% increase. The Premium category was especially strong once again as revenue was up 25%, primarily from a 21% increase in average revenue per car. Volume did improve slightly as automotive demand was up though intermodal demand did weak during the quarter. The operating ratio worsened so drastically because most efficiency ratings declined from the prior year.

We now expect that Union Pacific will earn \$11.00 in 2022, down from \$11.58 and \$11.72 previously.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$4.14	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$8.12	\$9.96	<b>\$11.00</b>	<b>\$15.43</b>
<b>DPS</b>	\$1.25	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$4.29	<b>\$5.20</b>	<b>\$7.29</b>
<b>Shares<sup>3</sup></b>	939	912	883	849	816	781	755	695	674	667	<b>621</b>	<b>585</b>

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 15 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 pandemic on the business, though the dividend growth streak continued due to the timing of payments.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated ex-dividend date

<sup>3</sup> In millions of shares

*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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## 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	17.1	18.0
Avg. Yld.	2.1%	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.8%	2.6%

Shares of Union Pacific have declined \$24, or 11.3%, since our July 21<sup>st</sup>, 2022 report. Shares trade with a price-to-earnings ratio of 17.1 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 1.0% tailwind to total returns over this time frame.

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

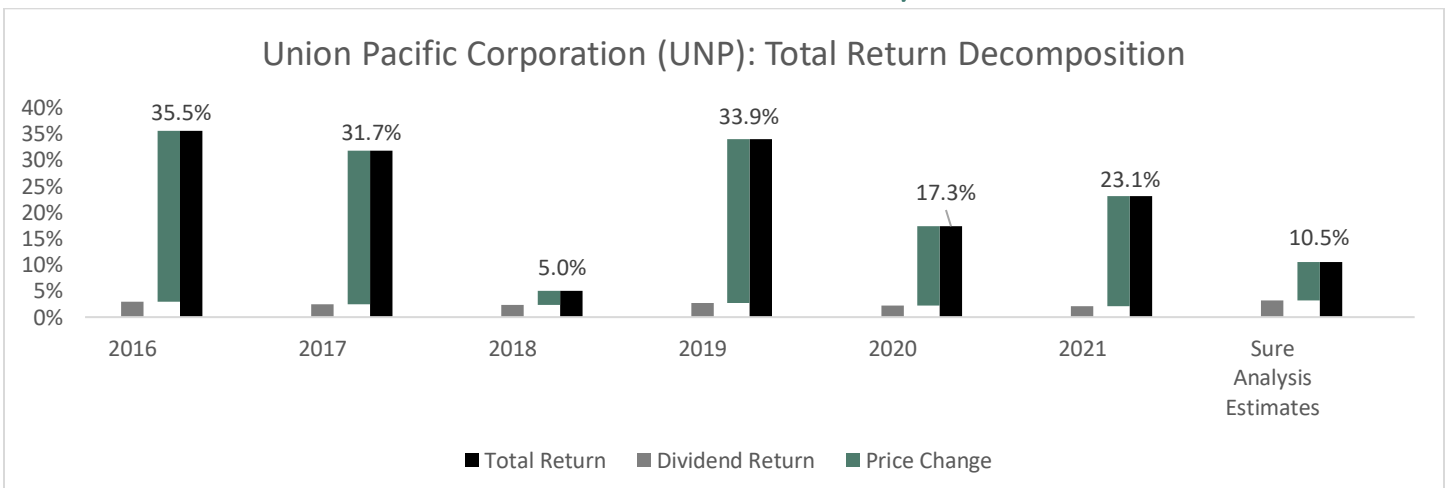
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	31%	33%	41%	45%	43%	39%	46%	49%	43%	47%	47%

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

After third quarter results, Union Pacific Corporation is now expected to offer a total annual return of 10.5% through 2027, up from our previous estimate of 8.9%. Our estimate stems from a 7% earnings growth rate, a 2.8% starting yield, and a small contribution from multiple expansion. Union Pacific saw strong pricing in all of its major categories, though the operating ratio was well above results from the prior year. Union Pacific's aggressive dividend growth should be attractive to income-orientated investors. We have lowered our five-year price target \$14 to \$278 due to revised estimates for 2022, but now view Union Pacific as a buy due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	20,926	21,963	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804
<b>Gross Profit</b>	7,533	8,295	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514
<b>Gross Margin</b>	36.0%	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%
<b>D&amp;A Exp.</b>	1,760	1,777	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208
<b>Operating Profit</b>	6,745	7,446	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338
<b>Op. Margin</b>	32.2%	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%
<b>Net Profit</b>	3,943	4,388	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523
<b>Net Margin</b>	18.8%	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%
<b>Free Cash Flow</b>	2,423	3,327	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096
<b>Income Tax</b>	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
<b>Total Assets</b>	47,153	49,731	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525
<b>Cash &amp; Equivalents</b>	1,063	1,432	1,586	1,391	1,277	1,275	1,273	831	1,799	960
<b>Acc. Receivable</b>	1,331	1,414	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722
<b>Inventories</b>	660	653	712	736	717	749	742	751	638	621
<b>Total Liabilities</b>	27,276	28,506	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364
<b>Accounts Payable</b>	825	803	877	743	955	1,013	872	749	612	752
<b>Long-Term Debt</b>	8,997	9,577	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393
<b>Total Equity</b>	19,877	21,225	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.5%	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%
<b>Return on Equity</b>	20.5%	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%
<b>ROIC</b>	14.0%	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%
<b>Shares Out.</b>	939	912	883	849	816	781	755	695	674	667
<b>Revenue/Share</b>	21.96	23.58	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27
<b>FCF/Share</b>	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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