



Union Pacific Corporation (UNP)

Updated January 25th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$201	5 Year CAGR Estimate:	10.3%	Market Cap:	\$128 B
Fair Value Price:	\$211	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	2/24/23 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	3/30/23 ²
Dividend Yield:	2.6%	5 Year Price Target	\$296	Years Of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 January 24th, 2023, Union Pacific announced earnings results for the fourth quarter and full year for the period ending December 31st, 2022. For the quarter, revenue increased 8.2% to \$6.2 billion, but missed estimates by \$60 million. GAAP earnings-per-share of \$2.67 compared to \$2.66 in the prior year, but was \$0.11 less than expected. Union Pacific's operating ratio of 61% was 360 basis points higher than the prior year. For 2022, revenue improved 14% to \$24.9 billion while earnings-per-share of \$11.24 compared to \$9.98. The operating ratio for the year was 60.1% compared to 57.2% in 2021.

Revenue for Bulk products grew 7% due to a 10% gain in average revenue per car that was offset by a 3% decline in volume. Coal demand remains high while all over categories fell during the period. Revenue for the Industrial category improved 5% due entirely to higher revenue per car as volume was flat. Metals and minerals were again higher due to construction growth, but demand for housing and industrial chemicals was lower. The Premium category was the best performing area once again as revenue was up 15%, due mostly to higher prices. Volume grew 3% as automotive shipments were up.

We expect that Union Pacific will earn \$11.73 in 2023, which would be a 4.4% increase from the prior year..

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$8.12	\$9.98	\$11.24	\$11.73	\$16.45
DPS	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$4.29	\$5.08	\$5.20	\$7.29
Shares³	912	883	849	816	781	755	695	674	667	613	613	580

Earnings-per-share have increased at a rate of more than 10% per year over the past decade, though that growth has slowed recently. Earnings have increased at a rate of 8.2% 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.

¹ Estimated ex-dividend date

² Estimated ex-dividend date

³ 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16	17.6	18.3	17.4	19.1	18.1	20.1	21.9	25.3	18.4	17.1	18.0
Avg. Yld.	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.5%	2.6%	2.5%

Shares of Union Pacific have increased \$13, or 6.9%, since our October 20th, 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 year. If the stock reverts to our target multiple by 2028, then valuation would likely be a 1.0% tailwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

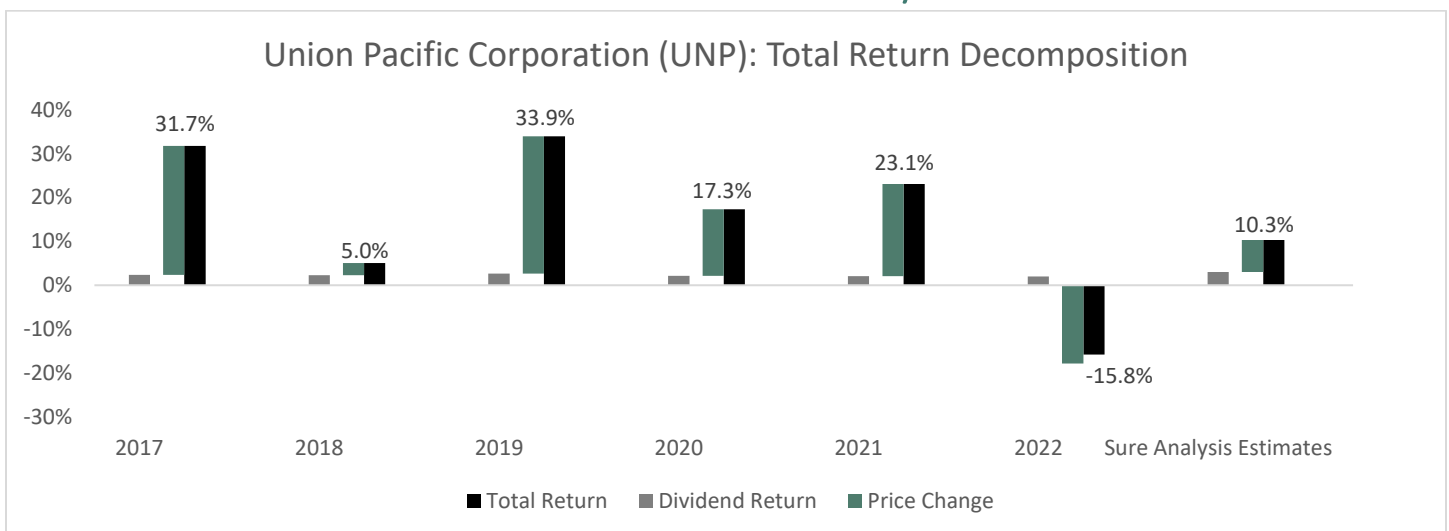
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	33%	41%	45%	43%	39%	46%	49%	43%	45%	44%	44%

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 fourth quarter results, Union Pacific Corporation is now expected to offer a total annual return of 10.3% through 2028, down slightly from our previous estimate of 10.5%. Our estimate stems from a 7% earnings growth rate, a 2.6% starting yield, and a small contribution from multiple expansion. Union Pacific continues to benefit from strong price action even if demand has fallen in many areas. The operating ratio continues to trend higher as well. We have raised our five-year price target \$18 to \$296 due to estimates for 2023. Union Pacific earns a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	21,963	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804	24,875
Gross Profit	8,295	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514	11,205
Gross Margin	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%	45.0%
D&A Exp.	1,777	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208	2,246
Operating Profit	7,446	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338	9,917
Op. Margin	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%	39.9%
Net Profit	4,388	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523	6,998
Net Margin	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%	28.1%
Free Cash Flow	3,327	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096	5,742
Income Tax	2,660	3,163	2,884	2,533	(3,080)	1,775	1,828	1,631	1,955	2,074

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	49,731	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525	65,449
Cash & Equivalents	1,432	1,586	1,391	1,277	1,275	1,273	831	1,799	960	973
Acc. Receivable	1,414	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722	
Inventories	653	712	736	717	749	742	751	638	621	
Total Liabilities	28,506	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364	53,286
Accounts Payable	803	877	743	955	1,013	872	749	612	752	
Long-Term Debt	9,577	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393	33,326
Total Equity	21,225	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161	12,163
LTD/E Ratio	0.45	0.54	0.69	0.75	0.68	1.10	1.39	1.58	2.08	2.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%	10.9%
Return on Equity	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%	53.2%
ROIC	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%	15.7%
Shares Out.	912	883	849	816	781	755	695	674	667	613
Revenue/Share	23.58	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27	39.86
FCF/Share	3.57	3.37	3.10	4.81	4.98	6.96	7.30	8.27	9.30	9.20

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

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