CSX Corporation (CSX)

Updated April 23rd, 2023, by Josh Arnold

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$65 B
Fair Value Price:	$34	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/28/23[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	06/15/23[2]
Dividend Yield:	1.4%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	18
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $65 billion after a recent rally in the stock, and it should produce about $14.8 billion in revenue in 2023.

CSX reported first quarter earnings on April 20th, 2023, and results were better than expected on both revenue and profits. Earnings-per-share came to 48 cents, which was a nickel better than expected. Revenue was up almost 9% from the comparable period last year to $3.71 billion, and beat estimates by $130 million. That result was driven by strong volume growth in merchandise and coal, as well as higher fuel surcharges and pricing gains.

Operating income rose 14% to $1.46 billion, with an operating ratio of 60.5%. That was 200 basis points better than expectations, and boosted margins.

Management guided for inflationary pressures on costs for this year, and pressure in its intermodal segment. However, it is also focused on efficiency to counteract some of that, and Q1 results show that it is able to raise prices on customers to preserve margins.

We now see $1.90 in earnings-per-share for this year after Q1 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.61	$0.64	$0.67	$0.60	$0.77	$1.28	$1.39	$1.20	$1.56	$1.89	***$1.90***	***$2.54***
DPS	$0.20	$0.21	$0.23	$0.24	$0.26	$0.29	$0.32	$0.35	$0.37	$0.40	***$0.44***	***$0.74***
Shares[3]	3,027	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,217	2,137	***2,080***	***1,900***

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 normalize in 2023, but note that this year's earnings have the potential to be lower than 2022.

Likewise, we see the dividend increasing at roughly the rate of earnings, reaching $0.74 in five years from today's level of $0.44. 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.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.6	16.1	15.7	15.5	21.8	16.8	17.2	20.6	21.0	16.4	***16.8***	***18.0***
Avg. Yld.	2.4%	2.0%	2.2%	2.6%	1.6%	1.4%	1.3%	1.4%	1.1%	1.3%	***1.4%***	***1.6%***

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 16.8 times this year's estimated earnings. This is somewhat lower than our estimate of fair value of 18 times earnings, so we see a small tailwind from the valuation. We expect the yield to potentially rise from 1.4% to 1.6% in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	33%	35%	40%	34%	23%	23%	29%	24%	21%	***23%***	***29%***

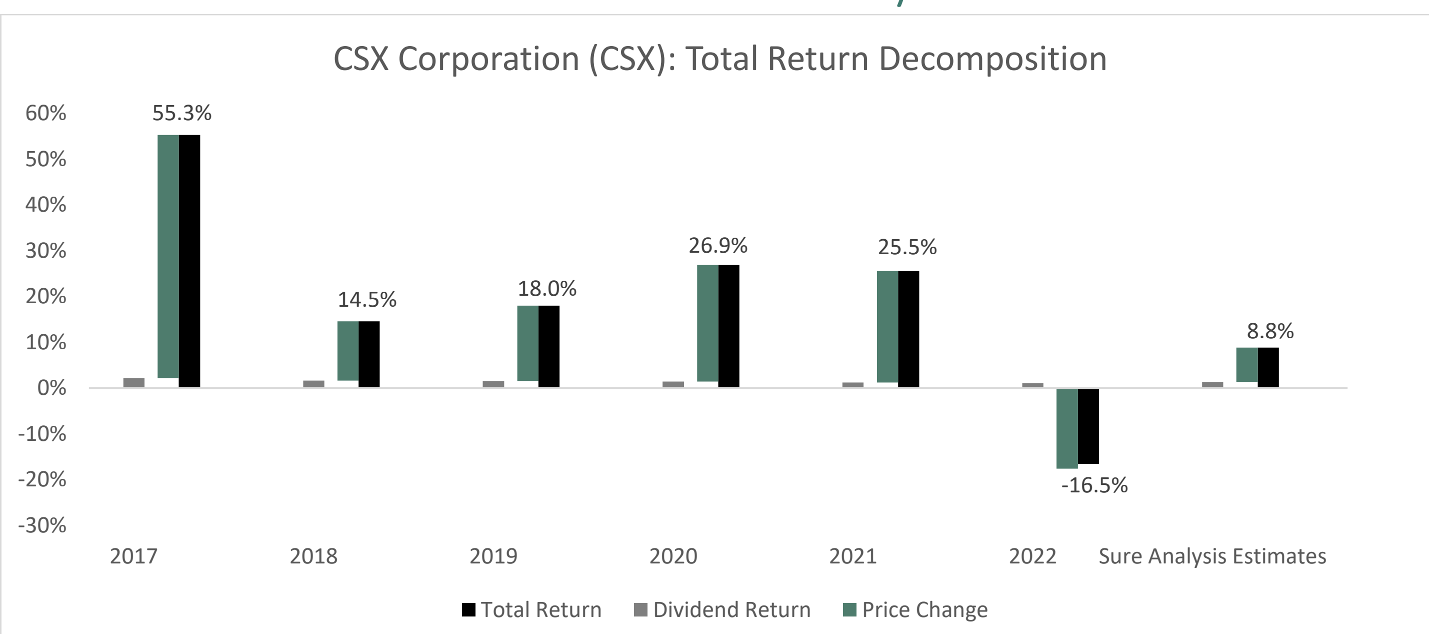
CSX's payout ratio remains low and as a result, is well covered. Indeed, its dividend safety is outstanding, but we note that the company has made it clear buybacks take priority over dividend growth.

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 quarters as a potential recession looms.

Final Thoughts & Recommendation

CSX is still trading slightly under fair value. It could see total annual returns in the next five years of 8.8%, consisting of the 1.4% current yield, 6% earnings growth and a 1.3% 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. Total returns have improved slightly since our last update, but we continue to rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	12,026	12,669	11,811	11,069	11,408	12,250	11,937	10,583	12,522	14,853
Gross Profit	3,473	3,613	3,544	3,363	3,741	4,773	4,874	4,362	5,140	5,785
Gross Margin	28.9%	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%
D&A Exp.	1,104	1,151	1,208	1,301	1,315	1,331	1,349	1,383	1,420	1,500
Operating Profit	3,473	3,613	3,544	3,363	3,741	4,773	4,874	4,327	5,140	5,785
Operating Margin	28.9%	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%
Net Profit	1,864	1,927	1,968	1,714	5,471	3,309	3,331	2,765	3,781	4,166
Net Margin	15.5%	15.2%	16.7%	15.5%	48.0%	27.0%	27.9%	26.1%	30.2%	28.0%
Free Cash Flow	954	894	808	643	1,432	2,896	3,193	2,637	3,308	3,486
Income Tax	1,058	1,117	1,170	1,027	-2,329	995	985	862	1,170	1,248

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	31,782	33,053	34,745	35,414	35,739	36,729	38,257	39,793	40,531	41,912
Cash & Equivalents	592	669	628	603	401	858	958	3,129	2,239	1,958
Acc. Receivable	1,052	1,129	982	938	793	828	769	700	937	1,051
Inventories	252	273	350	407	372	263	261	302	339	341
Goodwill & Int.	64	63	63	63	---	---	---	63	451	502
Total Liabilities	21,278	21,877	23,077	23,720	21,018	24,149	26,394	26,683	27,031	29,287
Accounts Payable	957	845	764	806	847	949	1,043	809	963	1,130
Long-Term Debt	9,555	9,742	10,535	11,293	11,809	14,757	16,238	16,705	16,366	18,047
Total Equity	10,483	11,152	11,652	11,679	14,705	12,563	11,848	13,101	13,490	12,625
LTD/E Ratio	0.91	0.87	0.90	0.97	0.80	1.17	1.37	1.28	1.21	1.43

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.0%	5.9%	5.8%	4.9%	15.4%	9.1%	8.9%	7.1%	9.4%	10.1%
Return on Equity	19.0%	17.8%	17.3%	14.7%	41.5%	24.3%	27.3%	22.2%	28.4%	31.9%
ROIC	9.6%	9.4%	9.1%	7.6%	22.1%	12.3%	12.0%	9.5%	12.7%	13.8%
Shares Out.	3,027	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,255	2,141
Revenue/Share	3.93	4.21	4.00	3.89	4.16	4.74	4.99	4.59	5.55	6.94
FCF/Share	0.31	0.30	0.27	0.23	0.52	1.12	1.33	1.14	1.47	1.63

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