



# Union Pacific Corporation (UNP)

Updated July 28<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$232	<b>5 Year CAGR Estimate:</b>	5.1%	<b>Market Cap:</b>	\$142 B
<b>Fair Value Price:</b>	\$189	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/30/23
<b>% Fair Value:</b>	123%	<b>5 Year Valuation Multiple Estimate:</b>	-4.0%	<b>Dividend Payment Date:</b>	09/29/23
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$265	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<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 \$24 billion in annual revenues.

On July 26<sup>th</sup>, 2023, Union Pacific announced that it was appointing Jim Vena as CEO effective August 14<sup>th</sup>, 2023.

Also on July 26<sup>th</sup>, 2023, Union Pacific announced earnings results for the second quarter for the period ending June 30<sup>th</sup>, 2023. For the quarter, revenue decreased 4.9% to \$5.96 billion, which was \$160 million less than expected. GAAP earnings-per-share of \$2.57 compared unfavorably to \$2.93 in the prior year and was \$0.20 below estimates. Union Pacific's operating ratio of 63.0% was 280 basis points higher than the prior year.

Revenue for Bulk products fell 3% due to a 2% decrease in average revenue per car and a 1% decline in volume. Grain & Grain Products were up 1% while coal was flat. Revenue for the Industrial category was flat as higher volume was offset by lower revenue per car. Forest Products were down 13%, with all other categories up 2%. Revenue for Premium was down 11%, mostly due to an 8% decrease in revenue per car. Automotive was up 11% while intermodal was down 7%.

We expect that Union Pacific will earn \$10.49 in 2023, down from our prior estimate of \$11.43 and \$11.73. If achieved, this would represent a 6.7% decrease from 2022.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.71	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$8.12	\$9.98	\$11.24	<b>\$10.49</b>	<b>\$14.71</b>
<b>DPS</b>	\$1.48	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$4.29	\$5.08	<b>\$5.20</b>	<b>\$7.29</b>
<b>Shares<sup>1</sup></b>	912	883	849	816	781	755	695	674	667	613	<b>610</b>	<b>580</b>

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.

<sup>1</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	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	22.1	18.0
Avg. Yld.	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.5%	2.2%	2.8%

Shares of Union Pacific have increased \$28, or 13.7%, since our April 20<sup>th</sup>, 2023 report. Shares trade with a price-to-earnings ratio of 22.1 based off 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. If the stock reverts to our target multiple by 2028, then valuation would likely be a 4.0% headwind to total returns over this time frame.

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

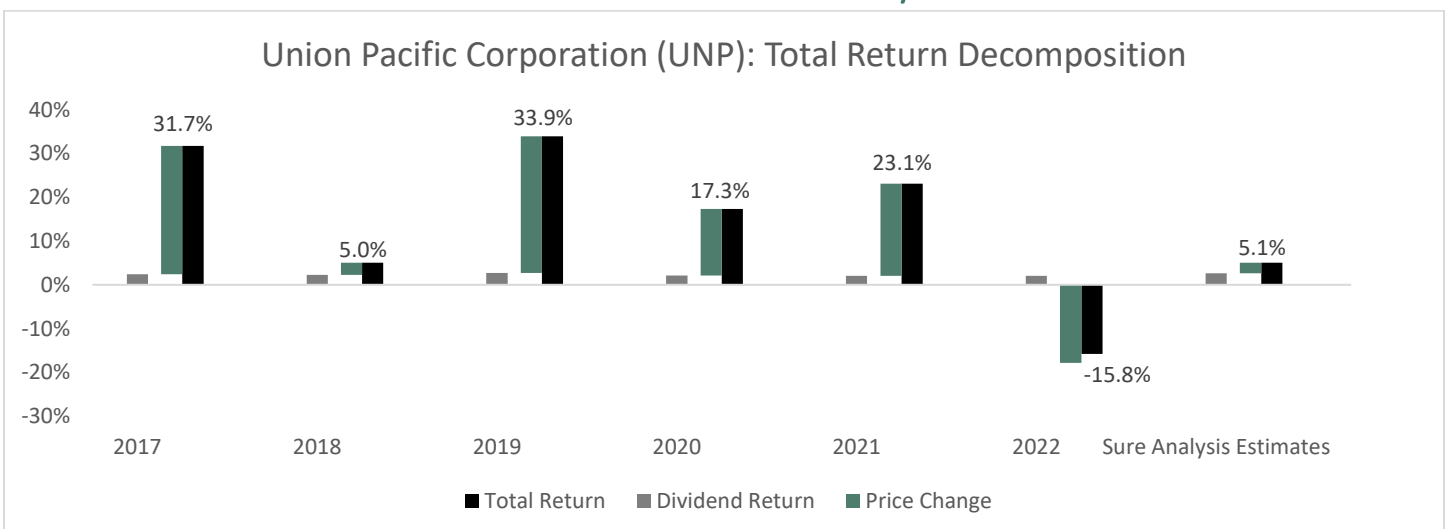
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	33%	41%	45%	43%	39%	46%	49%	43%	45%	50%	50%

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

Following second quarter results, Union Pacific Corporation is now expected to offer a total annual return of 5.1% through 2028, down from our previous estimate of 9.5%. Our estimate stems from a 7% earnings growth rate and a 2.2% starting yield, partially offset by a mid-single-digit headwind from multiple contraction. Union Pacific's business struggled during the quarter, but the stock rallied by nearly 11% following the announcement of a new CEO. We have lowered our five-year price target \$24 to \$265 due to estimates for 2023. Union Pacific continues to earn a hold 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
<b>Revenue</b>	21,963	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804	24,875
<b>Gross Profit</b>	8,295	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514	11,205
<b>Gross Margin</b>	37.8%	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%	45.0%
<b>D&amp;A Exp.</b>	1,777	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208	2,246
<b>Operating Profit</b>	7,446	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338	9,917
<b>Op. Margin</b>	33.9%	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%	39.9%
<b>Net Profit</b>	4,388	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523	6,998
<b>Net Margin</b>	20.0%	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%	28.1%
<b>Free Cash Flow</b>	3,327	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096	5,742
<b>Income Tax</b>	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
<b>Total Assets</b>	49,731	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525	65,449
<b>Cash &amp; Equivalents</b>	1,432	1,586	1,391	1,277	1,275	1,273	831	1,799	960	973
<b>Acc. Receivable</b>	1,414	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722	
<b>Inventories</b>	653	712	736	717	749	742	751	638	621	
<b>Total Liabilities</b>	28,506	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364	53,286
<b>Accounts Payable</b>	803	877	743	955	1,013	872	749	612	752	
<b>Long-Term Debt</b>	9,577	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393	33,326
<b>Total Equity</b>	21,225	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161	12,163
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	9.1%	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%	10.9%
<b>Return on Equity</b>	21.4%	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%	53.2%
<b>ROIC</b>	14.7%	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%	15.7%
<b>Shares Out.</b>	912	883	849	816	781	755	695	674	667	613
<b>Revenue/Share</b>	23.58	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27	39.86
<b>FCF/Share</b>	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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