



Union Pacific Corporation (UNP)

Updated October 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$213	5 Year CAGR Estimate:	6.4%	Market Cap:	\$130 B
Fair Value Price:	\$184	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/15/23 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	12/29/23 ²
Dividend Yield:	2.4%	5 Year Price Target	\$258	Years Of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	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 October 20th, 2023, Union Pacific reported earnings results for the third quarter for the period ending September 30th, 2023. For the quarter, revenue fell 9.6% to \$5.94 billion, which was \$40 million less than expected. GAAP earnings-per-share of \$2.51 compared unfavorably to \$3.05 in the prior year, but were \$0.08 ahead of estimates. Union Pacific's operating ratio of 63.4% was up 350 basis points from the prior year.

Revenue for Bulk products declined 10% due to a 6% decrease in average revenue per car and a 4% decline in volume. Grain & Grain Products volume was down by 4% while coal was lower by 5%. Revenue for the Industrial category decreased 6% as average revenue per car was lower by 6%. Volume was flat. Volume for Forest Products was down 13%. Energy & Specialized was higher by 4%. Revenue for Premium declined 12% due to a 9% decrease average revenue per car and a 4% drop in volume. Automotive volume grew 6%, but intermodal fell 6%.

We expect that Union Pacific will earn \$10.22 in 2023, down from our prior estimates of \$10.49, \$11.43, and \$11.73. If achieved, this would represent a 9.1% decrease from 2022.

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	\$10.22	\$14.33
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	609	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 5.3% 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 dividend payment 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	20.8	18.0
Avg. Yld.	2.0%	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.5%	2.4%	2.8%

Shares of Union Pacific have decreased \$19, or 8.2%, since our July 28th, 2023 report. Shares trade with a price-to-earnings ratio of 20.8 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 2.9% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

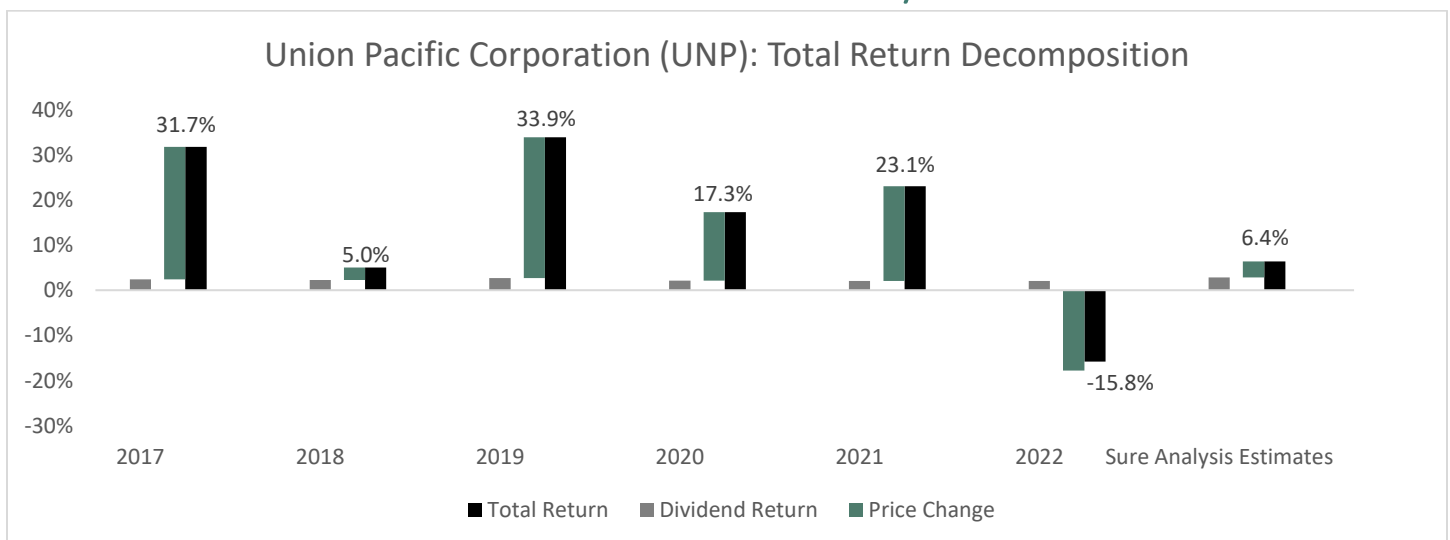
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	33%	41%	45%	43%	39%	46%	49%	43%	45%	51%	51%

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 6.4% through 2028, up from our previous estimate 5.1%. Our estimate stems from a 7% earnings growth rate and a 2.4% starting yield, partially offset by a low single-digit headwind from multiple contraction. Union Pacific's quarter showed continued weakness in certain areas. Average price per car fell in most product categories and volume was largely weaker. We have lowered our five-year price target \$7 to \$258 due to estimates for 2023, but we maintain our hold rating on shares of Union Pacific 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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