



CSX Corporation (CSX)

Updated January 26th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	8.9%	Market Cap:	\$69 B
Fair Value Price:	\$36	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/28/24 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	03/15/24 ²
Dividend Yield:	1.3%	5 Year Price Target	\$50	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 \$69 billion, and it should produce about \$15 billion in revenue in 2024.

CSX posted fourth quarter and full-year earnings on January 24th, 2024, and results were better than expected on both revenue and profits. Earnings-per-share came to 45 cents, which was a penny better than estimates. However, it was down four cents from the year-ago period, attributable to higher labor costs, inflation, and purchased services.

Revenue was \$3.68 billion, down 1.3% year-over-year, and beat estimates by \$50 million. The company noted fuel surcharge revenue fell to \$334 million from \$406 million, while trucking revenue was down \$22 million as well. Total volume was 1.56 million units, up 1% year-over-year. Merchandise volume was up 3%, coal volume also rose 3%, but intermodal volume was flat.

Operating income was \$1.32 billion, down 10% year-over-year, as the company's operating ratio was 64.1% for Q4.

Cash and equivalents fell from \$1.96 billion to \$1.35 billion year-over-year, partially due to aggressive share repurchase activity in 2023.

We start 2024 with a strong estimate of \$2 in earnings-per-share, which would be a new high if achieved.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.64	\$0.67	\$0.60	\$0.77	\$1.28	\$1.39	\$1.20	\$1.56	\$1.89	\$1.85	\$2.00	\$2.81
DPS	\$0.21	\$0.23	\$0.24	\$0.26	\$0.29	\$0.32	\$0.35	\$0.37	\$0.40	\$0.44	\$0.44	\$0.74
Shares³	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,217	2,137	1,969	1,925	1,800

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 7% 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 2024.

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

¹ Estimated date

² Estimated date

³ Share count in millions

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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.1	15.7	15.5	21.8	16.8	17.2	20.6	21.0	16.4	18.7	17.5	18.0
Avg. Yld.	2.0%	2.2%	2.6%	1.6%	1.4%	1.3%	1.4%	1.1%	1.3%	1.3%	1.3%	1.5%

CSX's price-to-earnings multiple is the same as our last update, given neither the share price nor earnings estimates have moved. Shares go for 17.5 times this year's estimated earnings. This is slightly lower than our estimate of fair value of 18 times earnings, so we see a fractional tailwind from the valuation. We expect the yield to potentially rise from 1.3% to 1.5% in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	35%	40%	34%	23%	23%	29%	24%	21%	24%	22%	26%

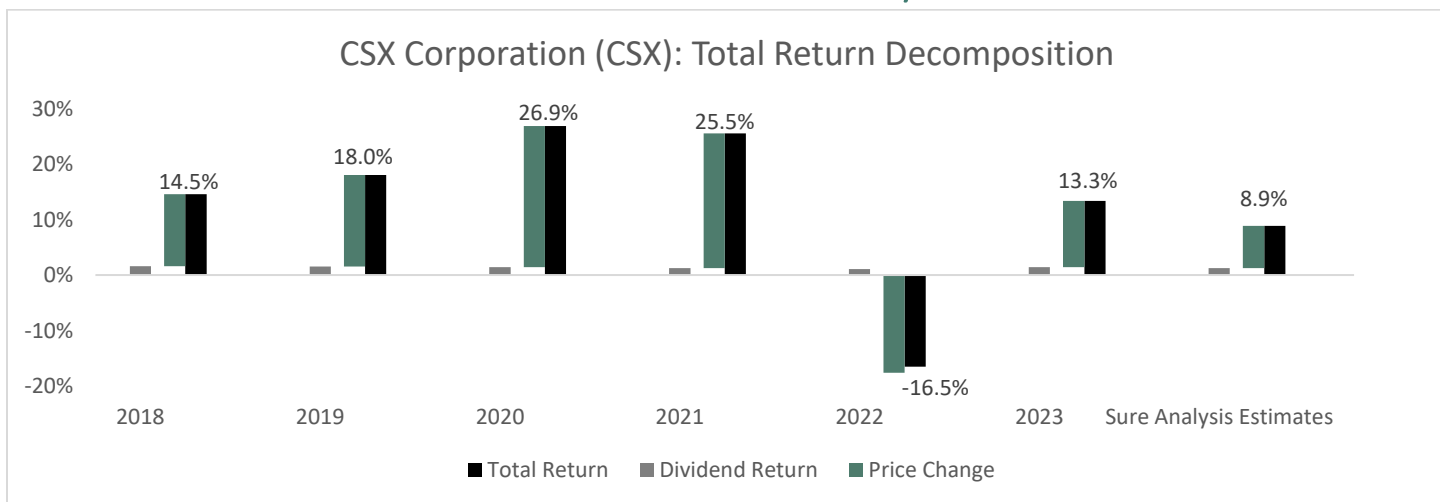
CSX's payout ratio remains low and as a result, is well covered. Indeed, its dividend safety is outstanding, but we note that the company has made it clear buybacks take priority over dividend growth.

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. Commentary from management has reiterated the risk of lower volume and pricing in the near term.

Final Thoughts & Recommendation

CSX is still trading slightly under fair value. It could see total annual returns in the next five years of 8.9%, consisting of the 1.3% current yield, 7% earnings growth and a 0.6% 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 are roughly the same as our prior update, and we continue to rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,669	11,811	11,069	11,408	12,250	11,937	10,583	12,522	14,853	14,657
Gross Profit	3,613	3,544	3,363	3,741	4,773	4,874	4,362	5,140	5,785	5,527
Gross Margin	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%	37.7%
D&A Exp.	1,151	1,208	1,301	1,315	1,331	1,349	1,383	1,420	1,500	1,611
Operating Profit	3,613	3,544	3,363	3,741	4,773	4,874	4,327	5,140	5,785	5,527
Operating Margin	28.5%	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%	37.7%
Net Profit	1,927	1,968	1,714	5,471	3,309	3,331	2,765	3,781	4,166	3,715
Net Margin	15.2%	16.7%	15.5%	48.0%	27.0%	27.9%	26.1%	30.2%	28.0%	25.3%
Free Cash Flow	894	808	643	1,432	2,896	3,193	2,637	3,308	3,486	3,268
Income Tax	1,117	1,170	1,027	-2,329	995	985	862	1,170	1,248	1,176

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	33,053	34,745	35,414	35,739	36,729	38,257	39,793	40,531	41,912	42,408
Cash & Equivalents	669	628	603	401	858	958	3,129	2,239	1,958	1,353
Acc. Receivable	1,129	982	938	793	828	769	700	937	1,051	---
Inventories	273	350	407	372	263	261	302	339	341	---
Goodwill & Int.	63	63	63	---	---	---	63	451	502	---
Total Liabilities	21,877	23,077	23,720	21,018	24,149	26,394	26,683	27,031	29,287	30,275
Accounts Payable	845	764	806	847	949	1,043	809	963	1,130	---
Long-Term Debt	9,742	10,535	11,293	11,809	14,757	16,238	16,705	16,366	18,047	18,533
Total Equity	11,152	11,652	11,679	14,705	12,563	11,848	13,101	13,490	12,625	12,133
LTD/E Ratio	0.87	0.90	0.97	0.80	1.17	1.37	1.28	1.21	1.43	1.53

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	5.8%	4.9%	15.4%	9.1%	8.9%	7.1%	9.4%	10.1%	8.8%
Return on Equity	17.8%	17.3%	14.7%	41.5%	24.3%	27.3%	22.2%	28.4%	31.9%	30.0%
ROIC	9.4%	9.1%	7.6%	22.1%	12.3%	12.0%	9.5%	12.7%	13.8%	12.1%
Shares Out.	2,976	2,898	2,784	2,670	2,580	2,334	2,304	2,255	2,141	2,013
Revenue/Share	4.21	4.00	3.89	4.16	4.74	4.99	4.59	5.55	6.94	7.28
FCF/Share	0.30	0.27	0.23	0.52	1.12	1.33	1.14	1.47	1.63	1.62

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

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