



# Union Pacific Corporation (UNP)

Updated January 28<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$240	<b>5 Year CAGR Estimate:</b>	5.5%	<b>Market Cap:</b>	\$147 B
<b>Fair Value Price:</b>	\$201	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	02/27/24 <sup>1</sup>
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.5%	<b>Dividend Payment Date:</b>	03/29/24 <sup>2</sup>
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$282	<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 \$25 billion in annual revenues.

On January 25<sup>th</sup>, 2024, Union Pacific announced earnings results for the fourth quarter and full year for the period ending December 31<sup>st</sup>, 2023. For the quarter, revenue declined 0.3% to \$6.16 billion, but beat estimates by \$110 million. GAAP earnings-per-share of \$2.71 compared favorably to \$2.67 in the prior year and was \$0.15 above expectations. For 2023, revenue fell 3% to \$24.1 billion while earnings-per-share of \$10.45 compared to \$11.24 in the prior year. Union Pacific's operating ratio improved 10 basis points to 60.9% for the quarter, but decreased 220 basis points to 62.3% for the year.

For the quarter, revenue for Bulk products was unchanged as volume gains were offset by average revenue per car. Fertilizer and Grain products performed well during the period, but coal faced headwinds from low natural gas prices and weather. Revenue for the Industrial category improved 4% as volume increased 3% and average revenue per car was up slightly. Plastics was aided by global demand, but sand demand fell. Revenue for Premium declined 3%, but this was a deacceleration from previous quarters. Pricing drooped 7% per car, but volume was up 4%. Automotive inventories were good and West Coast imports were strong.

We expect that Union Pacific will earn \$11.17 in 2024, which would represent an increase of 6.9% from the prior year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$5.75	\$5.41	\$5.07	\$5.79	\$7.91	\$8.38	\$8.12	\$9.98	\$11.24	\$10.45	<b>\$11.17</b>	<b>\$15.67</b>
<b>DPS</b>	\$1.91	\$2.20	\$2.26	\$2.48	\$3.06	\$3.70	\$3.88	\$4.29	\$5.08	\$5.20	<b>\$5.20</b>	<b>\$7.29</b>
<b>Shares<sup>3</sup></b>	883	849	816	781	755	695	674	667	613	609	<b>609</b>	<b>590</b>

Earnings-per-share have increased at a rate of 6.9% per year over the past decade, though that growth has slowed to 5.9% when looking at just the last 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> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.6	18.3	17.4	19.1	18.1	20.1	21.9	25.3	18.4	23.5	<b>21.5</b>	<b>18.0</b>
Avg. Yld.	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.5%	2.1%	<b>2.2%</b>	<b>2.6%</b>

Shares of Union Pacific have increased \$27, or 12.7%, since our October 20<sup>th</sup>, 2023 report. Shares trade with a price-to-earnings ratio of 21.5 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 2029, then valuation would be a 3.5% headwind to total returns over this time frame.

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

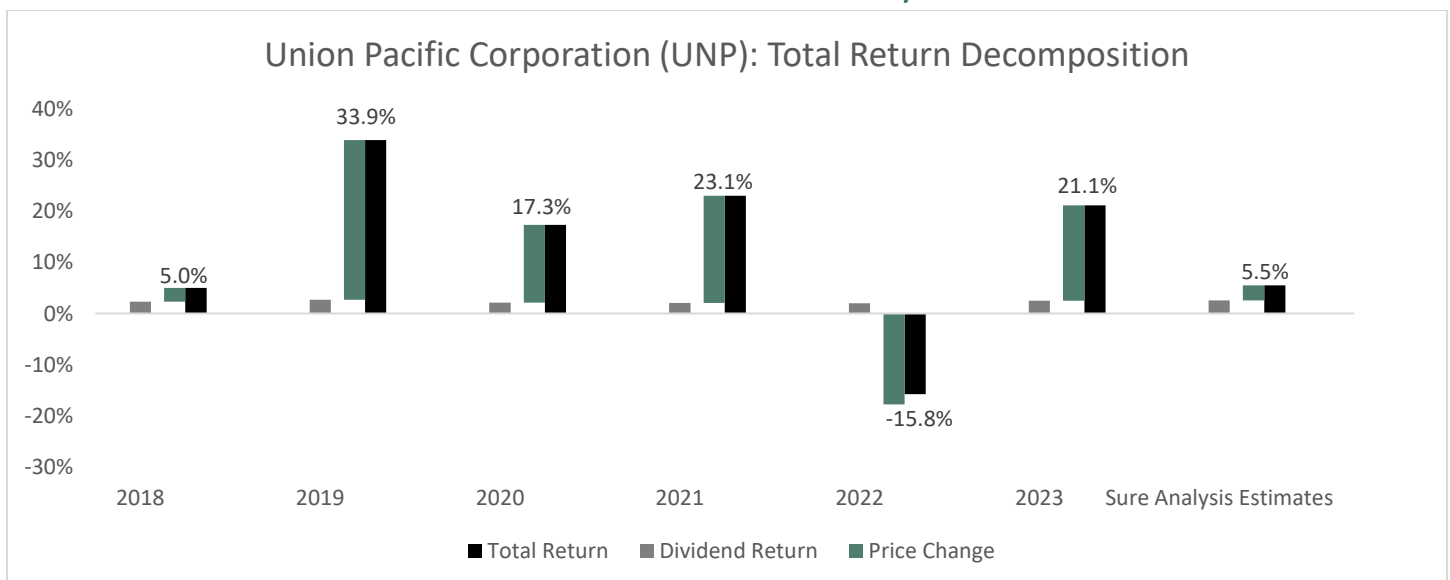
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	41%	45%	43%	39%	46%	49%	43%	45%	50%	<b>47%</b>	<b>47%</b>

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 fourth quarter results, Union Pacific Corporation is now expected to offer a total annual return of 5.5% through 2029, down from our previous estimate 6.4%. Our estimate stems from a 7% earnings growth rate and a 2.2% starting yield, partially offset by a low single-digit headwind from multiple contraction. Union Pacific's quarter was mixed, with certain areas performing well and others struggling. We have raised our five-year price target \$24 to \$282 due to estimates for 2024, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804	24,875	24,119
<b>Gross Profit</b>	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514	11,205	10,529
<b>Gross Margin</b>	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%	45.0%	43.7%
<b>D&amp;A Exp.</b>	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208	2,246	2,318
<b>Operating Profit</b>	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338	9,917	9,082
<b>Op. Margin</b>	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%	39.9%	37.7%
<b>Net Profit</b>	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523	6,998	6,379
<b>Net Margin</b>	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%	28.1%	26.4%
<b>Free Cash Flow</b>	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096	5,742	4,773
<b>Income Tax</b>	3,163	2,884	2,533	(3,080)	1,775	1,828	1,631	1,955	2,074	1,854

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525	65,449	67,132
<b>Cash &amp; Equivalents</b>	1,586	1,391	1,277	1,275	1,273	831	1,799	960	973	1,055
<b>Acc. Receivable</b>	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722	1,891	
<b>Inventories</b>	712	736	717	749	742	751	638	621	741	
<b>Total Liabilities</b>	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364	53,286	52,344
<b>Accounts Payable</b>	877	743	955	1,013	872	749	612	752	784	
<b>Long-Term Debt</b>	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393	33,326	32,579
<b>Total Equity</b>	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161	12,163	14,788
<b>LTD/E Ratio</b>	0.54	0.69	0.75	0.68	1.10	1.39	1.58	2.08	2.74	2.20

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%	10.9%	9.6%
<b>Return on Equity</b>	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%	53.2%	47.3%
<b>ROIC</b>	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%	15.7%	13.7%
<b>Shares Out.</b>	883	849	816	781	755	695	674	667	613	609
<b>Revenue/Share</b>	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27	39.86	39.53
<b>FCF/Share</b>	3.37	3.10	4.81	4.98	6.96	7.30	8.27	9.30	9.20	7.82

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

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