Union Pacific Corporation (UNP)

Updated October 25th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$231	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$141 B
Fair Value Price:	$197	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/06/24[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	12/27/24[2]
Dividend Yield:	2.3%	**5 Year Price Target**	$277	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 $25 billion in annual revenues.

On July 17th, 2024, Union Pacific announced that it was raising its quarterly dividend 3.1% to $1.34, extending the company's dividend growth streak to 16 consecutive years. The company had distributed the same dividend for nine consecutive quarters, but the growth streak remained intact due to the timing of the last increase.

On October 24th, 2024, Union Pacific reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue grew 2.5% to $6.1 billion, but this missed estimates by $50 million. GAAP earnings-per-share of $2.75 compared favorably to $2.51 in the prior year, but was $0.03 below expectations.

The company's operating ratio improved 310 basis points to 60.3%, largely due to fuel prices. For the quarter, revenue for Bulk products grew 2% as an increase average revenue per car (ARC) was partially offset by a 3% drop in volumes. Grain exports were strong while coal inventories were high. Revenue for the Industrial category increased 3% as a 5% increase in ARC was only partially offset by a 2% decline in volume. As with the prior quarter, this category benefited from pricing gains and positive mix. Premium showed growth for a second consecutive quarter as revenue was up 7%. ARC was down 6%, but volume was up 14% as west coast imports were strong while domestic intermodal performed well. Automotive was weak due to unplanned production downtime. The company still expects share repurchases of ~$1.5 billion in 2024, almost all of which will likely take place during the second half of the year.

We expect that Union Pacific will earn $10.97 in 2024, down from $11.15, $11.13, and $11.17 previously. This would represent an increase of 5.0% from the prior year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.75	$5.41	$5.07	$5.79	$7.91	$8.38	$8.12	$9.98	$11.24	$10.45	***$10.97***	***$15.39***
DPS	$1.91	$2.20	$2.26	$2.48	$3.06	$3.70	$3.88	$4.29	$5.08	$5.20	***$5.36***	***$7.52***
Shares[3]	883	849	816	781	755	695	674	667	613	609	***608***	***590***

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.

[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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Union Pacific has increased its dividend for more than a decade. 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 raises.

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	***21.1***	***18.0***
Avg. Yld.	1.6%	2.2%	2.6%	2.2%	2.1%	2.2%	2.2%	1.7%	2.5%	2.1%	***2.3%***	***2.7%***

Shares of Union Pacific have decreased $9, or 3.9%, since our October 25th, 2024 report. Shares trade with a price-to-earnings ratio of 21.1 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 2029, then valuation would be a 3.1% headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

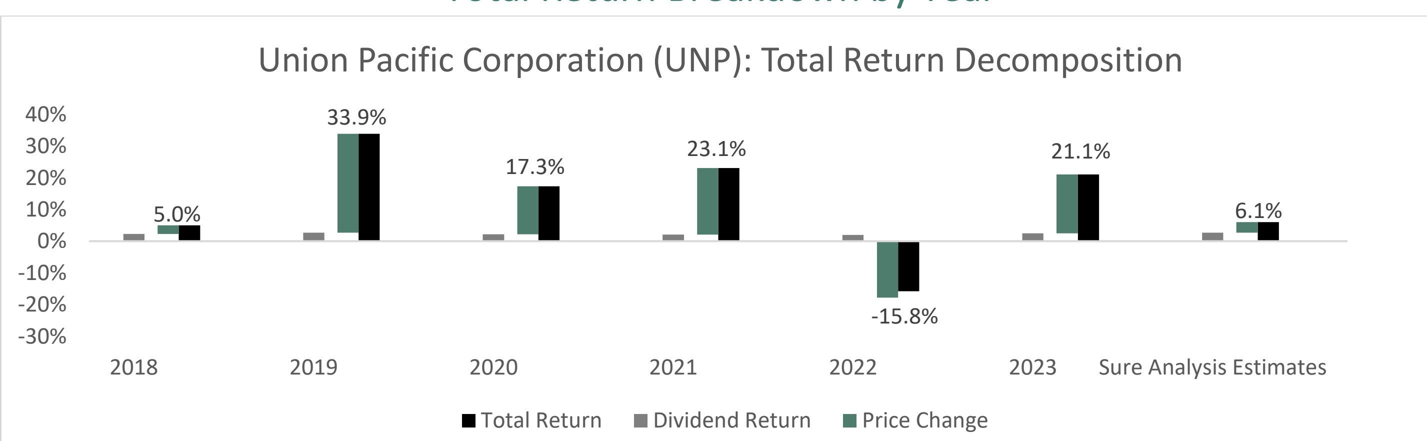
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	41%	45%	43%	39%	46%	49%	43%	45%	50%	***49%***	***49%***

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 6.1% through 2029, up from our previous estimate of 5.6%. Our estimate stems from a 7% earnings growth rate and a 2.3% starting yield, partially offset by a low single-digit headwind from multiple contraction. Union Pacific saw revenue growth for all three commodity types in the quarter and the operating ratio had another 300+ basis point improvement. We have lowered our five-year price target $4 to $277 due to estimates for 2024, but 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
Revenue	23,988	21,813	19,941	21,240	22,832	21,708	19,533	21,804	24,875	24,119
Gross Profit	9,677	8,976	8,240	9,054	9,539	9,614	9,179	10,514	11,205	10,529
Gross Margin	40.3%	41.1%	41.3%	42.6%	41.8%	44.3%	47.0%	48.2%	45.0%	43.7%
D&A Exp.	1,904	2,012	2,038	2,105	2,191	2,216	2,210	2,208	2,246	2,318
Operating Profit	8,753	8,052	7,243	8,106	8,517	8,554	7,834	9,338	9,917	9,082
Op. Margin	36.5%	36.9%	36.3%	38.2%	37.3%	39.4%	40.1%	42.8%	39.9%	37.7%
Net Profit	5,180	4,772	4,233	10,712	5,966	5,919	5,349	6,523	6,998	6,379
Net Margin	21.6%	21.9%	21.2%	50.4%	26.1%	27.3%	27.4%	29.9%	28.1%	26.4%
Free Cash Flow	3,039	2,694	4,020	3,992	5,249	5,156	5,613	6,096	5,742	4,773
Income Tax	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
Total Assets	52,372	54,600	55,718	57,806	59,147	61,673	62,398	63,525	65,449	67,132
Cash & Equivalents	1,586	1,391	1,277	1,275	1,273	831	1,799	960	973	1,055
Acc. Receivable	1,611	1,356	1,258	1,493	1,755	1,595	1,505	1,722	1,891	2,073
Inventories	712	736	717	749	742	751	638	621	741	743
Total Liabilities	31,183	33,898	35,786	32,950	38,724	43,545	45,440	49,364	53,286	52,344
Accounts Payable	877	743	955	1,013	872	749	612	752	784	856
Long-Term Debt	11,413	14,201	15,007	16,944	22,391	25,200	26,729	29,393	33,326	32,579
Total Equity	21,189	20,702	19,932	24,856	20,423	18,128	16,958	14,161	12,163	14,788
LTD/E Ratio	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
Return on Assets	10.1%	8.9%	7.7%	18.9%	10.2%	9.8%	8.6%	10.4%	10.9%	9.6%
Return on Equity	24.4%	22.8%	20.8%	47.8%	26.4%	30.7%	30.5%	41.9%	53.2%	47.3%
ROIC	16.3%	14.1%	12.1%	27.9%	14.1%	13.7%	12.3%	15.0%	15.7%	13.7%
Shares Out.	883	849	816	781	755	695	674	667	613	609
Revenue/Share	26.62	25.09	23.87	26.49	30.27	30.74	28.76	33.27	39.86	39.53
FCF/Share	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.