CSX Corporation (CSX)

Updated January 29th, 2025 by Josh Arnold

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$63 B
Fair Value Price:	$32	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	02/28/25[1]
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	03/13/25
Dividend Yield:	1.5%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	19
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 $63 billion, and it should produce nearly $15 billion in revenue in 2025.

CSX posted fourth quarter and full-year earnings on January 23rd, 2025, and results were somewhat weak. The company saw revenue decline almost 4% year over year to $3.54 billion, missing estimates by $20 million. Adjusted earnings-per-share came to 42 cents, which met expectations.

The company's sales were impacted by larger-than-expected declines in fuel surcharges and coal revenue, in addition to the impact from hurricanes. Higher pricing and volume growth in intermodal helped offset some of that, but revenue was weaker than expected as a result. Total volume of 1.58 million units for the quarter was 1% higher than the year-ago period.

Operating margin contracted by a staggering 440 basis points to 31.3% of revenue. The $1.11 billion in operating income included a $108 million impairment charge for goodwill. Excluding this, operating margin would have been 34.3% of revenue.

For the first quarter, the company anticipates a decline in coal volume to drag on revenue. In addition, the management team said Q1 operating income should be the lowest for 2025, and "well below" the prior year. They note results should turn higher from there, particularly into the second half.

We start 2025 with essentially flat earnings for this year, but note that given the factors involved in CSX' earnings, results are likely to be volatile.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.67	$0.60	$0.77	$1.28	$1.39	$1.20	$1.56	$1.89	$1.85	$1.83	***$1.85***	***$2.85***
DPS	$0.23	$0.24	$0.26	$0.29	$0.32	$0.35	$0.37	$0.40	$0.44	$0.48	***$0.48***	***$0.81***
Shares[2]	2,898	2,784	2,670	2,580	2,334	2,304	2,217	2,137	1,969	1,921	***1,900***	***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 9% 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 note that investors should

[1] Estimated date
[2] Share count in millions

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.

closely monitor Q1 results based upon early guidance from management as it pertains to revenue and operating margins.

We see the dividend increasing at roughly the rate of earnings, reaching $0.81 in five years from today's level of $0.48. CSX has put buybacks first in recent years but with a much-reduced capex budget as part of its operational 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.7	15.5	21.8	16.8	17.2	20.6	21.0	16.4	18.7	17.6	***17.8***	***17.5***
Avg. Yld.	2.2%	2.6%	1.6%	1.4%	1.3%	1.4%	1.1%	1.3%	1.3%	1.5%	***1.5%***	***1.6%***

CSX's price-to-earnings multiple is now 17.8 times this year's earnings, which is much lower than our previous update; the share price has moved higher while estimates are now lower. This is still ahead of our estimate of fair value of 17.5 times earnings, so we see a fractional headwind from the valuation. We expect the yield to potentially rise from 1.5% to 1.6% in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	35%	40%	34%	23%	23%	29%	24%	21%	24%	26%	***26%***	***28%***

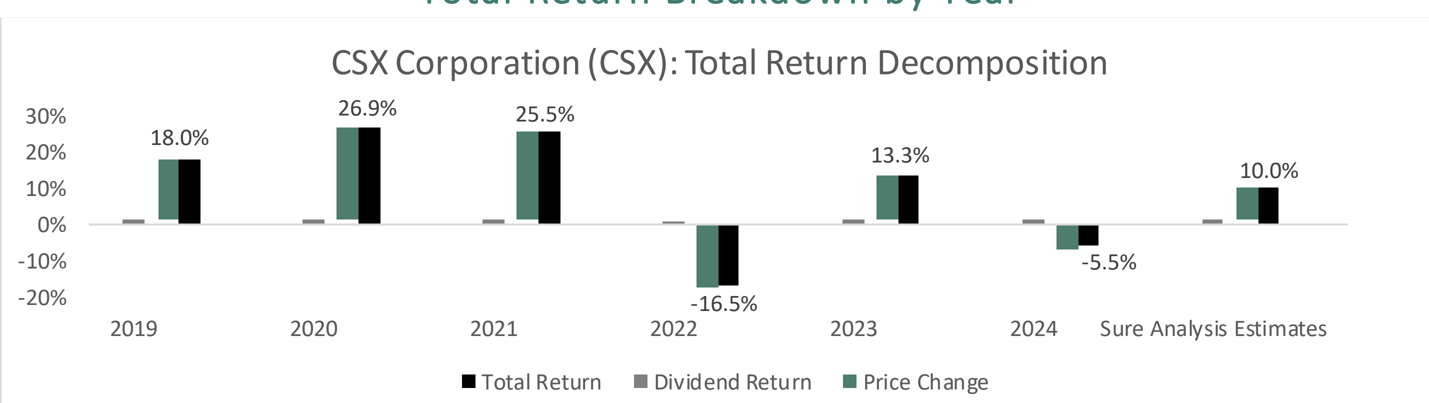
CSX's payout ratio remains low and as a result, is well covered. Indeed, its dividend safety is outstanding, but we note that the company has made it clear buybacks take priority over dividend growth.

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 in 2024.

Final Thoughts & Recommendation

CSX is trading slightly ahead of fair value. It could see total annual returns in the next five years of 10%, consisting of the 1.5% current yield, 9% earnings growth and 0.4% headwind 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 slightly lower than our previous update, and we're upgrading the stock from hold to buy as a result.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	11,811	11,069	11,408	12,250	11,937	10,583	12,522	14,853	14,657	14,540
Gross Profit	3,544	3,363	3,741	4,773	4,874	4,362	5,140	5,785	5,527	5,342
Gross Margin	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%	37.7%	36.7%
D&A Exp.	1,208	1,301	1,315	1,331	1,349	1,383	1,420	1,500	1,611	1,658
Operating Profit	3,544	3,363	3,741	4,773	4,874	4,327	5,140	5,785	5,527	5,342
Operating Margin	30.0%	30.4%	32.8%	39.0%	40.8%	41.2%	41.0%	38.9%	37.7%	36.7%
Net Profit	1,968	1,714	5,471	3,309	3,331	2,765	3,781	4,166	3,715	3,470
Net Margin	16.7%	15.5%	48.0%	27.0%	27.9%	26.1%	30.2%	28.0%	25.3%	23.9%
Free Cash Flow	808	643	1,432	2,896	3,193	2,637	3,308	3,486	3,268	2,718
Income Tax	1,170	1,027	-2,329	995	985	862	1,170	1,248	1,176	1,085

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	34,745	35,414	35,739	36,729	38,257	39,793	40,531	41,912	42,408	42,764
Cash & Equivalents	628	603	401	858	958	3,129	2,239	1,958	1,353	933
Acc. Receivable	982	938	793	828	769	700	937	1,051	1,029	---
Inventories	350	407	372	263	261	302	339	341	446	---
Goodwill & Int.	63	63	---	---	---	63	451	502	506	---
Total Liabilities	23,077	23,720	21,018	24,149	26,394	26,683	27,031	29,287	30,275	30,257
Accounts Payable	764	806	847	949	1,043	809	963	1,130	1,237	---
Long-Term Debt	10,535	11,293	11,809	14,757	16,238	16,705	16,366	18,047	18,533	18,503
Total Equity	11,652	11,679	14,705	12,563	11,848	13,101	13,490	12,625	12,128	12,507
LTD/E Ratio	0.90	0.97	0.80	1.17	1.37	1.28	1.21	1.43	1.53	1.48

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.8%	4.9%	15.4%	9.1%	8.9%	7.1%	9.4%	10.1%	8.8%	8.1%
Return on Equity	17.3%	14.7%	41.5%	24.3%	27.3%	22.2%	28.4%	31.9%	30.0%	28.2%
ROIC	9.1%	7.6%	22.1%	12.3%	12.0%	9.5%	12.7%	13.8%	12.1%	11.3%
Shares Out.	2,898	2,784	2,670	2,580	2,334	2,304	2,255	2,141	2,013	1,943
Revenue/Share	4.00	3.89	4.16	4.74	4.99	4.59	5.55	6.94	7.28	7.48
FCF/Share	0.27	0.23	0.52	1.12	1.33	1.14	1.47	1.63	1.62	1.40

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

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