

CSX Corporation (CSX)

\$71.43 (As of 08/05/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Shares of CSX have underperformed its industry in a year primarily due to sluggish coal and intermodal revenues. Global economic slowdown caused by coronavirus is weighing on volumes. During the first six months of 2020, merchandise volumes declined due to automotive-plant shutdowns. Intermodal volumes were also weak during the period. Despite this challenging environment, CSX expects capex to be \$1.6-\$1.7 billion for 2020. Such high capital expenses may further impede growth. However, decreasing operating expenses (down 13% in the first half of 2020) due to low fuel prices, weak volumes and increased efficiency is noteworthy. CSX's measures to reward shareholders are also appreciable. During the first six months of 2020, it repurchased 10 million shares for \$616 million. Additionally, the company has a sound liquidity position.

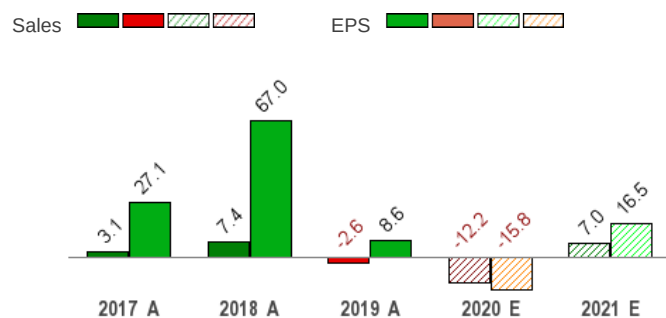
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.62 - \$46.81
20 Day Average Volume (sh)	3,542,353
Market Cap	\$54.6 B
YTD Price Change	-1.3%
Beta	1.21
Dividend / Div Yld	\$1.04 / 1.5%
Industry	Transportation - Rail
Zacks Industry Rank	Bottom 27% (185 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.0%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	10/21/2020
Earnings ESP	0.0%
P/E TTM	19.2
P/E F1	20.4
PEG F1	1.5
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,807 E	2,889 E	2,833 E	2,925 E	11,225 E
2020	2,855 A	2,255 A	2,596 E	2,759 E	10,486 E
2019	3,013 A	3,061 A	2,978 A	2,885 A	11,937 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.97 E	\$1.05 E	\$1.05 E	\$1.08 E	\$4.09 E
2020	\$1.00 A	\$0.65 A	\$0.90 E	\$0.95 E	\$3.51 E
2019	\$1.02 A	\$1.08 A	\$1.08 A	\$0.99 A	\$4.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

Overview

CSX Corporation is one of United States' leading transportation companies. The company, based in Jacksonville, FL, offers rail-based freight transportation services like traditional rail service, transport of intermodal containers and trailers apart from rail-to- truck transfers.

CSX, incorporated in 1978 under Virginia law, offers customers access to a large and interconnected transportation network. The company's fiscal year coincides with the calendar year.

CSX Transportation is the company's primary operating subsidiary. Through the subsidiary, the company provides an important link to the transportation supply chain through its rail network, spanning across approximately 20,500 route miles. CSXT also offers service to multiple production and distribution facilities apart from managing activities like real estate sales .

Through this vast network, the company offers services to major population centers in 23 states east of the Mississippi River, the District of Columbia and Ontario and Quebec in Canada.

CSX owns multiple locomotives. Freight, switching and auxiliary units are present in the locomotive fleet. CSX also leases locomotives on a short-term basis.

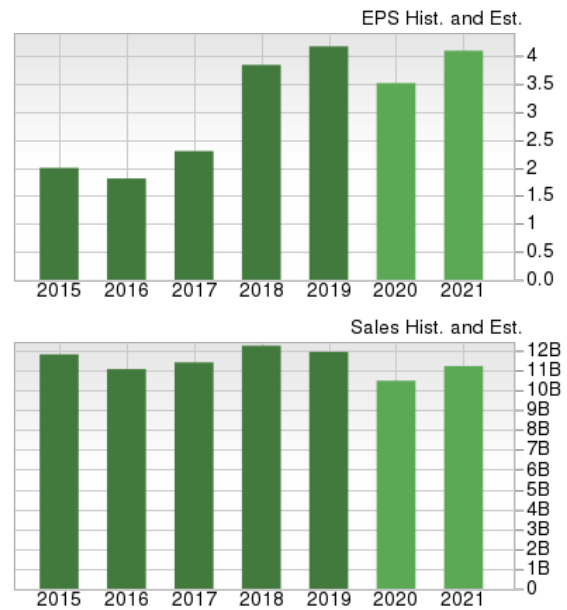
CSX conducts its operations primarily through four business lines:

Merchandise (accounted for 63.6% of total revenue in 2019): The merchandise business consists of one million carloads per year of aggregates, which include crushed stone, sand and gravel, metal, phosphate, fertilizer, food, consumer (manufactured goods and appliances), agricultural, paper and chemical products.

Coal (17.3%): The segment delivers carloads of coal, coke and iron ore to electricity generating power plants, ocean, river and lake piers and terminals, steel makers apart from industrial plants.

Intermodal (14.7%): Through its network of more than 50 terminals, Intermodal serves all the major markets east of the Mississippi River and transports, mainly manufactured consumer goods in containers, thereby providing customers truck-like service for longer shipments.

Other (4.4%): The segment, introduced in the second quarter of 2010, includes other revenues pertaining to Rail as well as Intermodal.



Reasons To Buy:

▲ We are impressed by CSX's efforts to check costs. Total expenses declined 13% year over year in the first half of 2020 due to weak volumes, low fuel prices (fuel expenses down 39%), reduction in labor and fringe expenses (down 16%) as well as increased operational efficiency. Operating expenses declined 6% in 2019. Moreover, with economic activities ramping up post the coronavirus-led lockdown, gradual improvement in volumes is a boon to CSX. During the second-quarter conference call, management stated that volumes have improved nearly 20% since Memorial Day.

We are also impressed by the company's efforts to reward its shareholders. Significant reduction in costs is also a positive.

▲ Despite adversities, the company's commitment to reward shareholders is encouraging. In the first six months of 2020, it repurchased 10 million shares for \$616 million. This February, the company announced an 8% dividend hike to 26 cents per share. In January 2019, the company's board cleared a new \$5-billion share buyback program following early completion of the previous one. During 2019, the company returned more than \$4.1 billion to shareholders through \$3.4 billion in buybacks and over \$750 million in dividends.

▲ Expansion of CSX's intermodal service offering to provide customers with a faster and more efficient service is noteworthy. The company along with Canadian National offers an intermodal service between the ports of Philadelphia, New York, New Jersey and the New York City metropolitan area served by the company and Canadian National's greater Montreal and Southern Ontario areas. Moreover, CSX's return on equity (ROE) supports its growth potential. The ROE (expressed as a percentage) for CSX is currently 24.2 compared with 16.9 for the S&P 500 Index, of which CSX is a key member. This implies the company is efficient in utilizing shareholders' funds. Moreover, CSX's cash and cash equivalents stood at \$2.59 billion at the end of the second quarter, much higher than the current debt of \$378 million, implying that the company has sufficient cash to meet its current debt obligations.

Reasons To Sell:

- ▼ CSX is taking a hit from the coronavirus pandemic. Merchandise revenues fell 10% year over year in the first six months of 2020 with volumes declining 10% as well due to automotive-plant shutdowns. Additionally, intermodal revenues dropped 10% with volumes decreasing 5% due to volume declines in both international and domestic businesses, owing to lower consumer and industrial demand. Total revenues declined 16% in the face of weak volumes. Although volumes have improved from the dramatic lows, it is still significantly below year-ago levels. Given the slowdown in the global economy, volumes are unlikely to recover in the near-term. As a result, the top line is expected to remain under pressure.
 - ▼ Persistent weakness in coal revenues (declined 8% in 2019) due to lower domestic and export coal volumes raises concerns. Weak demand due to reduced power consumption, low natural gas prices and export benchmark prices is affecting domestic and export coal markets. Coal revenues plunged 37% year over year in the first six months of 2020, with volumes declining 30%.
 - ▼ Despite coronavirus concerns, CSX does not intend to cut back much on capital expenses. For the full year, the company expects capital expenditures at the low end of \$1.6-\$1.7 billion (\$1.65 billion incurred in 2019). With the company already suffering weak earnings (declined 21% year over year in the first half of 2020), such high capital expenditures, even though lower than 2019 levels, may further hamper prospects.
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Weak volumes due to coronavirus concerns are expected to keep the top line under pressure.

Last Earnings Report

Earnings Miss at CSX in Q2

CSX's earnings of 65 cents per share missed the Zacks Consensus Estimate of 67 cents. Moreover, the bottom line plunged 39.8% year over year due to a drop in revenues. Total revenues of \$2,255 million also lagged the Zacks Consensus Estimate of \$2,306 million and declined 26.3% year over year owing to coronavirus-led volume declines.

Second-quarter operating income fell 37% to \$828 million. Operating ratio (operating expenses as a percentage of revenues) deteriorated to 63.3% from 57.4% in the prior-year quarter as a result of low revenues. Notably, lower the value of the metric, the better. Total expenses declined 19% year over year in the reported quarter.

Segmental Performance

Merchandise revenues plummeted 22% year over year to \$1,508 million in the quarter under review. Merchandise volumes also declined 22%.

Coal revenues plunged 48% year over year to \$287 million in the reported quarter. Coal volumes contracted 44% due to lower domestic and export coal volumes.

Moreover, Intermodal revenues slid 18% year over year to \$359 million. Volumes declined 11% with both domestic and international volumes dwindling due to coronavirus-led global economic impacts.

Other revenues too fell 19% to \$101 million in the reported quarter.

Liquidity & Share Buyback

The company exited the second quarter with cash and cash equivalents of \$2,391 million compared with \$958 million at the end of December 2019. Long-term debt totaled \$16,128 million compared with \$15,993 million at 2019-end. As of Jun 30, 2020, net cash provided by operating activities was \$2,184 million, compared with \$2,267 million in the year-earlier period.

As of Jun 30, 2020, CSX repurchased 10 million shares for \$616 million.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	-2.21%
EPS Surprise	-2.99%
Quarterly EPS	0.65
Annual EPS (TTM)	3.72

Recent News

Executive Vice President Ed Harris to Retire — Jun 11, 2020

CSX's long-serving executive vice president, Ed Harris, will retire on Aug 1, 2020. Consequently, CSX's Safety and Facilities groups that reported to Harris are doing so to Jamie Boychuk, executive vice president Operations.

Dividend Update – May 7, 2020

CSX's board declared a quarterly cash dividend of 26 cents per share (annually \$1.04). The amount is payable to shareholders on Jun 15, 2020, of record as of May 29.

Valuation

CSX shares are down 1.3% but up 8.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 1.9% in the year-to-date period, while those in the Zacks Transportation sector are down 6%. Over the past year, the Zacks sub-industry and the sector are up 9.6% and 0.2%, respectively.

The S&P 500 index is up 2.6% and 15% in the year-to-date period and in the past year respectively.

The stock is currently trading at 18.5X forward 12-month price-to-earnings, which compares to 19.43X for the Zacks sub-industry, 33.48X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.72X and as low as 10.99X, with a 5-year median of 17.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 19.43X forward 12-month earnings.

The table below shows summary valuation data for CSX

Valuation Multiples - CSX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.5	19.43	33.48	22.58
	5-Year High	25.72	19.43	36.54	22.58
	5-Year Low	10.99	13.46	10.48	15.25
	5-Year Median	17.14	16.84	13.52	17.55
EV/EBITDA TTM	Current	11.79	14.4	7.93	12.8
	5-Year High	38.74	31.25	11.22	12.85
	5-Year Low	6.37	7.86	5.47	8.24
	5-Year Median	11.13	12.23	7.39	10.89
P/S F 12M	Current	5	5.86	1.27	3.63
	5-Year High	5.29	5.86	1.42	3.63
	5-Year Low	1.84	3.04	0.85	2.53
	5-Year Median	4.19	4.57	1.2	3.04

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Canadian National Railway Company (CNI)	Outperform	2
Canadian Pacific Railway Limited (CP)	Outperform	2
Berkshire Hathaway Inc. (BRK.B)	Neutral	2
FedEx Corporation (FDX)	Neutral	3
Kansas City Southern (KSU)	Neutral	3
Norfolk Southern Corporation (NSC)	Neutral	3
Union Pacific Corporation (UNP)	Neutral	3
WEST JAPAN RAIL (WJRY)	Neutral	4

Industry Comparison Industry: Transportation - Rail				Industry Peers		
	CSX	X Industry	S&P 500	CNI	NSC	UNP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	D	C	B
Market Cap	54.65 B	20.78 B	22.93 B	69.94 B	53.17 B	120.47 B
# of Analysts	10	7	14	10	10	10
Dividend Yield	1.46%	1.67%	1.76%	1.67%	1.95%	2.19%
Value Score	B	-	-	C	B	B
Cash/Price	0.05	0.05	0.07	0.01	0.02	0.02
EV/EBITDA	10.65	12.25	13.16	13.88	12.35	13.09
PEG Ratio	1.47	2.66	2.99	3.56	3.08	2.30
Price/Book (P/B)	4.49	3.55	3.20	5.16	3.58	7.32
Price/Cash Flow (P/CF)	11.94	12.93	12.45	16.10	12.93	15.14
P/E (F1)	20.35	22.97	21.78	24.86	21.90	22.97
Price/Sales (P/S)	4.98	5.09	2.47	6.61	5.19	5.96
Earnings Yield	4.91%	4.19%	4.33%	4.03%	4.57%	4.35%
Debt/Equity	1.33	0.81	0.77	0.70	0.85	1.61
Cash Flow (\$/share)	5.98	6.11	6.94	6.11	14.93	11.72
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	23.81%	12.62%	10.46%	6.34%	18.89%	13.50%
Proj. EPS Growth (F1/F0)	-15.73%	-11.20%	-7.14%	-9.89%	-14.74%	-7.82%
Curr. Cash Flow Growth	0.86%	1.21%	5.47%	6.26%	3.26%	-0.27%
Hist. Cash Flow Growth (3-5 yrs)	8.74%	5.61%	8.55%	3.06%	5.66%	2.78%
Current Ratio	1.62	1.08	1.32	0.97	1.21	0.96
Debt/Capital	57.01%	45.91%	44.59%	41.11%	45.91%	61.64%
Net Margin	26.39%	20.55%	10.15%	25.66%	20.47%	27.54%
Return on Equity	24.24%	15.46%	14.46%	20.92%	16.06%	32.45%
Sales/Assets	0.28	0.32	0.51	0.32	0.27	0.32
Proj. Sales Growth (F1/F0)	-12.15%	-8.54%	-1.68%	-8.54%	-13.31%	-11.40%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	0.95%	0.78%	0.59%	0.95%	0.35%	2.18%
1 Week Price Chg	0.00%	-0.15%	0.14%	1.34%	2.78%	-1.57%
4 Week Price Chg	3.37%	7.50%	5.31%	9.52%	10.16%	4.99%
12 Week Price Chg	14.60%	17.33%	19.84%	23.87%	17.33%	16.19%
52 Week Price Chg	8.41%	6.41%	2.73%	6.41%	7.84%	6.32%
20 Day Average Volume	3,542,353	282,870	2,098,555	1,067,622	1,517,843	3,002,523
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.80%	0.00%
(F1) EPS Est 4 week change	-1.54%	0.13%	1.10%	1.62%	0.25%	0.56%
(F1) EPS Est 12 week change	-3.01%	-2.29%	1.04%	3.69%	-3.10%	0.21%
(Q1) EPS Est Mthly Chg	2.04%	0.91%	0.39%	1.34%	0.49%	-0.58%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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