

CSX Corporation (CSX)

\$68.64 (As of 07/13/20)

Price Target (6-12 Months): **\$72.00**

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: C

Growth: C

Momentum: C

Summary

Shares of CSX have underperformed its industry in a year mainly due to sluggish coal and intermodal revenues. The company is also taking a hit from the coronavirus pandemic. During the first quarter, international intermodal volumes declined due to closure of operations in China. The company's second-quarter performance is expected to reflect volume softness due to supply-chain disruptions. Due to the uncertainty, CSX withdrew its financial outlook. Amid the setback, the company's high debt levels add to its woes. However, decreasing operating expenses due to improved operational efficiency and the consequent improvement in operating ratio is noteworthy. CSX's commitment to reward shareholders despite adversities is also appreciable. During the first quarter, the company repurchased 9 million shares at an average price of \$64.75.

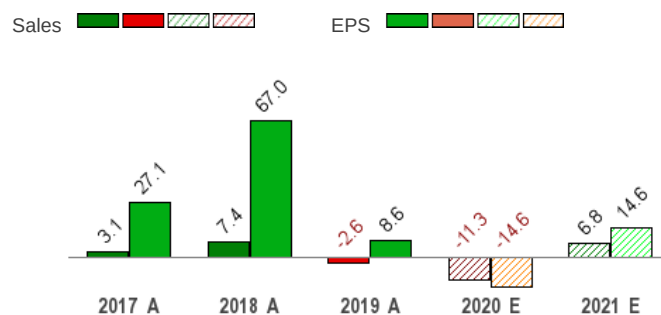
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.62 - \$46.81
20 Day Average Volume (sh)	3,642,301
Market Cap	\$52.5 B
YTD Price Change	-5.1%
Beta	1.23
Dividend / Div Yld	\$1.04 / 1.5%
Industry	Transportation - Rail
Zacks Industry Rank	Top 42% (105 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.7%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	07/22/2020
Earnings ESP	-4.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,799 E	2,915 E	2,845 E	2,893 E	11,299 E
2020	2,855 A	2,306 E	2,611 E	2,795 E	10,583 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	\$1.00 E	\$1.09 E	\$1.08 E	\$1.08 E	\$4.08 E
2020	\$1.00 A	\$0.69 E	\$0.88 E	\$0.97 E	\$3.56 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.

P/E TTM	16.5
P/E F1	19.3
PEG F1	1.4
P/S TTM	4.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/13/2020. The reports text is as of 07/14/2020.

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.

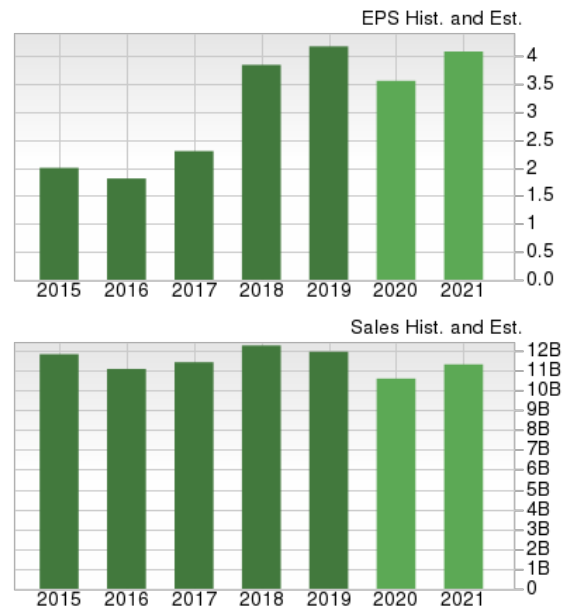
CSX conducts its operations primarily through four business lines:

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. With operating expenses declining 6% in 2019, operating ratio (operating expenses as a percentage of revenues) improved to 58.4% in the period from 60.3% a year ago. Notably, lower the value of this key metric, the better. Moreover, increased operational efficiency led to 7% decline in operating expenses in the first quarter of 2020. Consequently, operating ratio improved to 58.7% in the quarter from 59.5% in the first quarter of 2019. This key metric is expected to have improved in the second quarter as well.

Improvement in operating ratio is a positive for the company. We are also impressed by the company's efforts to reward its shareholders despite adversities.

▲ Despite adversities, the company's commitment to reward shareholders is encouraging. During the first quarter, the company repurchased 9 million shares at an average price of \$64.75. Additionally, the company will continue rewarding shareholders through dividends as it generates sufficient free cash flow. Regardless of the coronavirus-related setbacks, the company's free cash flow (before payment of dividends) was \$812 million at the end of the first quarter, down only slightly from the year ago period. Coming back to the shareholder-friendly measures, in 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. Moreover, adjusted free cash flow increased 9% year over year to \$3.5 billion in 2019.

▲ 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 27.3 compared with 18 for the S&P 500 Index, of which CSX is a key member. This implies the company is efficient in utilizing shareholders' funds.

Reasons To Sell:

- ▼ CSX is taking a hit from the coronavirus pandemic. The company witnessed weak international intermodal volumes due to coronavirus-led closure of operations in China. This adversity, which affected the company in March, led to 1% decline in intermodal revenues in the first quarter. Coronavirus-related restrictions might have affected demand for the company's products including import and export volume in the second quarter. Second-quarter volumes are also likely to have been affected by supply-chain disruptions. Detailed results will be available on Jul 22. Taking the uncertainty surrounding coronavirus into consideration, CSX withdrew financial outlook.
- ▼ Persistent weakness in coal revenues (declined 8% in 2019) due to lower domestic and export coal volumes raises concerns. Notably, coal revenues plunged 25% in the first quarter with volumes contracting 15%. In fact, coal segment softness weighed on the top line as well, which decreased approximately 5% in the first quarter. CSX's top line is expected to reflect this softness in coal volumes in the second quarter.
- ▼ CSX's high debt levels are worrisome. As of Mar 31, 2020, total debt was \$16,732 million compared with \$16,238 million at 2019 end. Moreover, the debt to equity ratio for CSX at the end of the first quarter was 1.4. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt. Moreover, CSX's total debt to total capital ratio at the end of first-quarter 2020 was 0.59, comparing unfavorably to its industry's reading of 0.56.

The coronavirus crisis is weighing on intermodal volumes. High debt levels are also worrisome.

Last Earnings Report

Earnings Beat at CSX in Q1

CSX Corporation reported first-quarter 2020 earnings of \$1 per share, beating the Zacks Consensus Estimate of 92 cents. However, the bottom line slipped approximately 2% year over year due to a drop in revenues.

Meanwhile, total revenues of \$2,855 million lagged the consensus estimate of \$2,877 million and declined approximately 5% year over year owing to lower coal and other revenues.

First-quarter operating income dropped 3% year over year to \$1.18 billion. Operating ratio (operating expenses as a percentage of revenues) improved to 58.7% from 59.5% in the prior-year quarter, with total expenses declining 7% from the year-ago period. Costs reduced primarily due to increased efficiency.

Segmental Performance

Merchandise revenues inched up 3% year over year to \$1,927 million in the quarter under review. Merchandise volumes increased 2%.

Coal revenues plunged 25% year over year to \$405 million in the reported quarter. Coal volumes also contracted 15% year over year due to lower domestic and export coal volumes.

Moreover, Intermodal revenues slid 1% year over year to \$422 million. Volumes were flat year over year, with international volumes dwindling due to coronavirus-led closure of operations in China.

Other revenues too fell 40% to \$101 million in the reported quarter.

Liquidity & Share Buyback

The company exited the first quarter with cash and cash equivalents of \$1,995 million compared with \$958 million at the end of December 2019. Long-term debt totaled \$16,477 million compared with \$15,993 million at 2019-end. As of Mar 31, 2020, net cash provided by operating activities was \$1,178 million compared with \$1,173 million in the year-earlier period.

During the first quarter, the company repurchased 9 million shares at an average price of \$64.75.

Suspension of Guidance

Taking the uncertainty surrounding coronavirus into consideration, CSX withdrew financial outlook. To combat the low-volume scenario caused by the health crisis, the company is controlling expenses as well as evaluating future capital spending.

Quarter Ending	03/2020
Report Date	Apr 22, 2020
Sales Surprise	-0.77%
EPS Surprise	8.70%
Quarterly EPS	1.00
Annual EPS (TTM)	4.15

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 5.1% and 12.6% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 6.1% and 12.5% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 5.7% and 10.3%, respectively.

The S&P 500 index is down 0.8% but up 6.5% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 17.9X forward 12-month price-to-earnings, which compares to 18.26X for the Zacks sub-industry, 32.78X for the Zacks sector and 22.69X 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 17.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 18.8X 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	17.9	18.26	32.78	22.69
	5-Year High	25.72	19.35	35.19	15.25
	5-Year Low	10.99	13.46	10.48	17.52
	5-Year Median	17.04	16.8	13.35	22.69
EV/EBITDA TTM	Current	10.62	12.77	7.41	11.84
	5-Year High	38.74	31.25	11.21	12.86
	5-Year Low	6.37	7.86	5.45	8.25
	5-Year Median	11.05	12.18	7.38	10.86
P/S F 12M	Current	4.79	5.38	1.24	3.55
	5-Year High	5.29	5.5	1.42	3.55
	5-Year Low	1.84	3.04	0.85	2.53
	5-Year Median	4.17	4.55	1.2	3.02

As of 07/13/2020

Industry Analysis Zacks Industry Rank: Top 42% (105 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Canadian Pacific Railway Limited (CP)	Outperform	1
Berkshire Hathaway Inc. (BRK.B)	Neutral	4
Canadian National Railway Company (CNI)	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	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	C	B
Market Cap	52.54 B	21.00 B	21.41 B	63.74 B	48.42 B	114.79 B
# of Analysts	10	7	14	10	10	10
Dividend Yield	1.52%	1.83%	1.92%	1.83%	2.15%	2.29%
Value Score	C	-	-	C	C	C
Cash/Price	0.05	0.05	0.07	0.01	0.01	0.01
EV/EBITDA	10.39	11.00	12.70	12.82	11.39	12.71
PEG Ratio	1.40	2.74	2.87	3.35	2.87	2.20
Price/Book (P/B)	4.42	3.12	3.02	4.54	3.25	7.18
Price/Cash Flow (P/CF)	11.47	11.73	11.61	14.67	11.73	14.44
P/E (F1)	19.34	22.01	21.07	22.96	19.99	22.01
Price/Sales (P/S)	4.46	4.42	2.23	5.68	4.37	5.33
Earnings Yield	5.19%	4.53%	4.47%	4.35%	5.00%	4.54%
Debt/Equity	1.39	0.69	0.76	0.69	0.79	1.65
Cash Flow (\$/share)	5.98	6.11	6.94	6.11	14.93	11.72
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	23.43%	11.86%	10.85%	6.78%	18.67%	12.65%
Proj. EPS Growth (F1/F0)	-14.75%	-12.08%	-9.37%	-11.09%	-15.27%	-8.29%
Curr. Cash Flow Growth	0.86%	1.21%	5.51%	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	1.73	1.03	1.30	0.76	0.90	0.82
Debt/Capital	58.09%	44.24%	44.46%	40.96%	44.24%	62.25%
Net Margin	27.74%	21.74%	10.59%	29.76%	21.89%	27.85%
Return on Equity	27.27%	16.49%	15.75%	22.99%	18.12%	34.15%
Sales/Assets	0.31	0.34	0.55	0.34	0.30	0.35
Proj. Sales Growth (F1/F0)	-11.34%	-8.61%	-2.54%	-8.61%	-13.21%	-9.30%
Momentum Score	C	-	-	B	F	B
Daily Price Chg	1.63%	0.32%	-0.19%	0.02%	2.51%	1.67%
1 Week Price Chg	-1.92%	-1.64%	-0.41%	1.23%	-2.10%	-1.59%
4 Week Price Chg	-2.15%	-0.14%	-0.91%	1.97%	-1.40%	0.74%
12 Week Price Chg	12.52%	13.21%	10.22%	14.57%	13.94%	15.39%
52 Week Price Chg	-12.56%	-12.56%	-7.40%	-4.20%	-14.20%	-2.04%
20 Day Average Volume	3,642,301	276,217	2,267,087	743,267	1,360,876	3,296,437
(F1) EPS Est 1 week change	-0.39%	0.00%	0.00%	0.26%	-0.38%	0.04%
(F1) EPS Est 4 week change	-1.66%	-1.74%	0.00%	1.40%	-1.93%	-0.17%
(F1) EPS Est 12 week change	-7.88%	-8.79%	-6.60%	-4.24%	-10.54%	-7.22%
(Q1) EPS Est Mthly Chg	-1.34%	-0.87%	0.00%	3.49%	-0.82%	-0.93%

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	C
Growth Score	C
Momentum Score	C
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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