

CSX Corporation (CSX)

\$74.61 (As of 01/22/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: B

Momentum: F

Summary

Shares of CSX have underperformed its industry in a year, mainly due to sluggish coal and intermodal revenues. While coal revenues declined 8% in 2019, intermodal revenues decreased 9%. Consequently, the top line slipped 3% in 2019. In fact, with the coal-related headwind anticipated to persist, the company expects 2020 revenues to either decline up to 2% or be flat year over year. The forecast includes a \$300-million headwind from the coal market weakness. The company's high debt levels further add to its woes. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for 2020 earnings being revised downward in the past 60 days. However, CSX's measures to control costs are encouraging. In this regard, its operating ratio target of 59% for 2020 despite a negative impact of \$300 million is noteworthy.

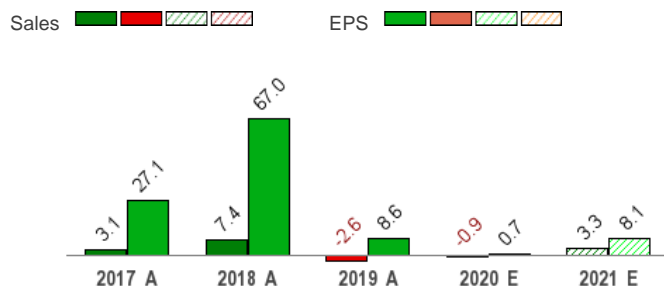
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.73 - \$63.97
20 Day Average Volume (sh)	3,433,727
Market Cap	\$58.4 B
YTD Price Change	3.1%
Beta	1.21
Dividend / Div Yld	\$0.96 / 1.3%
Industry	Transportation - Rail
Zacks Industry Rank	Bottom 7% (238 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	04/21/2020
Earnings ESP	0.0%
P/E TTM	17.9
P/E F1	17.8
PEG F1	1.3
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,974 E	3,131 E	3,158 E	3,140 E	12,220 E
2020	2,862 E	2,999 E	3,017 E	2,970 E	11,829 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	\$1.10 E	\$1.24 E	\$1.25 E	\$1.21 E	\$4.54 E
2020	\$0.91 E	\$1.06 E	\$1.09 E	\$1.05 E	\$4.20 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 01/22/2020. The reports text is as of 01/23/2020.

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.

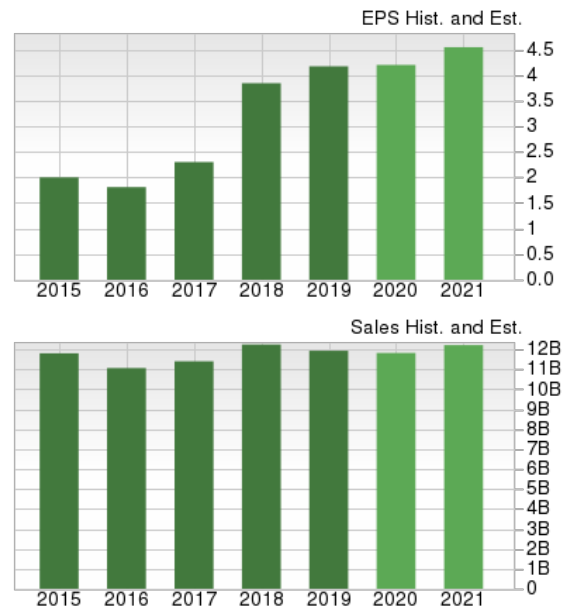
CSX conducts its operations primarily through four business lines:

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 Sell:

- ▼ CSX's forecast for 2020 revenues is quite concerning. Mainly due to persistent weakness in coal revenues (declined 8% in 2019) on account of lower export demand and benchmark prices, the company anticipates 2020 revenues to be either flat year over year or decline up to 2%. Impact of the coal-related headwind is estimated at more than \$300 million.
- ▼ Weakness pertaining to the intermodal segment also raises concerns. With segmental volumes declining 8% in 2019, revenues decreased 9% year over year. The downside is chiefly due to adversity from lane rationalizations implemented during the 2018 peak season. Intermodal volume declines coupled with coal volume softness caused 4% reduction in overall volumes. Consequently, total revenues slipped 3% in 2019. Going back to the bearish intermodal scenario, although the impact of the lane rationalizations is expected to ease this year, it might take some time for benefits to be realized and the segment to recover from the slump.
- ▼ CSX's high debt levels are worrisome. As of Dec 31, 2019, long-term debt was \$15,993 million compared with \$14,739 million at 2018 end. The debt to equity ratio for CSX is more than 100% compared with 84.1% for S&P 500. This unfavorable comparison highlights that CSX is a highly leveraged company. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.

CSX's bleak outlook for 2020 revenues, primarily due to the coal-related headwind, is worrisome.

Risks

- 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. Despite operating income headwinds of approximately \$300 million, the company hopes for an operating ratio of 59% in 2020.
 - We are impressed by the company's efforts to reward shareholders through dividend payments and buybacks. In February 2019, the company announced a 9.1% dividend hike to 24 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. This bears testimony to CSX's robust cash generating capabilities.
 - 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 27.5 compared with 18.6 for the S&P 500 Index, of which CSX is a key member. This implies the company is efficient in utilizing shareholders' funds.
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Last Earnings Report

Earnings Beat at CSX in Q4

CSX reported fourth-quarter 2019 earnings of 99 cents per share, beating the Zacks Consensus Estimate of 97 cents. However, the bottom line slipped approximately 2% year over year due to lower revenues.

Meanwhile, total revenues of \$2,885 million lagged the Zacks Consensus Estimate of \$2,918.2 million and also decreased 8.2% year over year. The top line was affected by lower volumes and coal market adversities.

Fourth-quarter operating income was down 8% year over year to \$1.15 billion. Operating ratio (operating expenses as a percentage of revenues) improved to 60% from 60.3% in the prior-year quarter with total expenses declining 9% from the year-ago period. Costs reduced primarily due to increased efficiency and volume-related savings.

Segmental Performance

Merchandise revenues decreased 3% year over year to \$1,860 million in the quarter under review. Merchandise volumes also slid 3% year over year.

Coal revenues plunged 22% year over year to \$459 million in the reported quarter. Coal volumes also contracted 17% year over year due to lower domestic and export coal volumes.

Moreover, Intermodal revenues dropped 9% year over year to \$449 million. Volumes also shrank 7% on a year-over-year basis with both domestic and international volumes dwindling due to rationalization of low-density lanes.

Other revenues too fell 22% to \$117 million in the reported quarter.

Liquidity & Share Buyback

The company exited the fourth quarter with cash and cash equivalents of \$958 million compared with \$858 million at the end of December 2018. Long-term debt totaled \$15,993 million compared with \$14,739 million at 2018 end. As of Dec 31, 2019, net cash provided by operating activities was \$4,850 million compared with \$4,641 million in the year-earlier period.

During 2019, the company repurchased 48 million shares at an average price of \$70.54.

Annual Results

For 2019, the company's earnings of \$4.17 per share beat the Zacks Consensus Estimate of \$4.16. However, total revenues of \$11.94 billion missed the Zacks Consensus Estimate of \$11.96 billion. While the bottom line increased 9% year over year, the top line decreased 3%.

Quarter Ending **12/2019**

Report Date	Jan 16, 2020
Sales Surprise	-1.14%
EPS Surprise	2.06%
Quarterly EPS	0.99
Annual EPS (TTM)	4.17

Valuation

CSX shares are up 14.7% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 17.6% and 10.3% respectively.

The S&P 500 index is up 24.9% over the past year.

The stock is currently trading at 17.44X forward 12-month price-to-earnings, which compares to 17.91X for the Zacks sub-industry, 13.08X for the Zacks sector and 19.13X 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 16.75X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 14.72X 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	17.44	17.91	13.08	19.13
	5-Year High	25.72	19.35	16.98	19.34
	5-Year Low	10.99	13.46	10.46	15.17
	5-Year Median	16.75	16.68	13.1	17.44
EV/EBITDA TTM	Current	11.73	13.93	8.07	12.38
	5-Year High	38.74	31.25	11.11	12.86
	5-Year Low	6.46	7.98	5.97	8.48
	5-Year Median	10.94	11.9	7.41	10.67
P/S F 12M	Current	4.88	5.46	1.13	3.56
	5-Year High	5.29	5.46	1.44	3.56
	5-Year Low	1.84	3.04	1.03	2.54
	5-Year Median	4.01	4.43	1.23	3

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (238 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Rail				Industry Peers		
	CSX Underperform	X Industry	S&P 500	CNI Underperform	NSC Neutral	UNP Neutral
VGM Score	F	-	-	F	D	D
Market Cap	58.37 B	25.98 B	24.65 B	67.35 B	52.97 B	125.60 B
# of Analysts	9	7	13	10	5	6
Dividend Yield	1.29%	1.65%	1.77%	1.72%	1.85%	2.14%
Value Score	F	-	-	F	D	D
Cash/Price	0.03	0.03	0.04	0.01	0.01	0.01
EV/EBITDA	11.31	11.85	13.98	13.11	12.40	13.76
PEG Ratio	1.28	1.93	2.05	2.08	1.93	1.92
Price/Book (P/B)	4.92	3.48	3.38	4.81	3.48	6.97
Price/Cash Flow (P/CF)	12.47	14.68	13.60	16.75	14.68	16.34
P/E (F1)	17.76	18.45	19.07	19.66	18.35	19.16
Price/Sales (P/S)	4.89	4.75	2.69	5.90	4.61	5.64
Earnings Yield	5.63%	5.42%	5.24%	5.09%	5.45%	5.22%
Debt/Equity	1.35	0.73	0.72	0.65	0.73	1.35
Cash Flow (\$/share)	5.98	5.98	6.94	5.63	13.84	11.07
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	21.86%	9.54%	10.60%	6.26%	14.51%	9.54%
Proj. EPS Growth (F1/F0)	0.67%	10.86%	7.53%	10.07%	10.28%	11.65%
Curr. Cash Flow Growth	0.86%	4.94%	13.90%	4.94%	26.47%	20.97%
Hist. Cash Flow Growth (3-5 yrs)	8.74%	5.76%	9.00%	4.63%	6.34%	5.76%
Current Ratio	1.52	0.89	1.22	0.71	0.73	0.89
Debt/Capital	57.41%	42.11%	42.99%	39.33%	42.11%	57.44%
Net Margin	27.91%	23.78%	11.21%	29.62%	23.98%	27.28%
Return on Equity	27.49%	15.82%	17.16%	24.36%	18.22%	32.65%
Sales/Assets	0.31	0.35	0.55	0.35	0.31	0.36
Proj. Sales Growth (F1/F0)	-0.91%	4.51%	4.08%	5.64%	1.33%	3.02%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	-0.29%	-0.36%	-0.04%	-1.41%	-0.72%	-0.84%
1 Week Price Chg	4.14%	3.15%	2.29%	4.59%	5.96%	4.15%
4 Week Price Chg	2.23%	1.44%	2.05%	4.27%	4.22%	0.58%
12 Week Price Chg	5.01%	4.67%	6.92%	4.34%	9.81%	7.73%
52 Week Price Chg	14.64%	18.21%	21.50%	15.86%	23.71%	17.24%
20 Day Average Volume	3,433,727	164,993	1,518,423	597,739	1,267,009	2,427,993
(F1) EPS Est 1 week change	-3.72%	0.00%	0.00%	0.00%	-0.75%	-0.18%
(F1) EPS Est 4 week change	-3.57%	-0.40%	0.00%	-1.90%	-0.79%	-1.01%
(F1) EPS Est 12 week change	-5.79%	-2.33%	-0.23%	-5.91%	-1.99%	-2.67%
(Q1) EPS Est Mthly Chg	-6.50%	-0.60%	0.00%	1.08%	-2.45%	-1.66%

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	F
Growth Score	B
Momentum Score	F
VGM Score	F

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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