



CSX Corporation

(NYSE: CSX)

Recommendation: Long

Current Price: \$31.63

Target Price: \$39.38

Upside: 25%



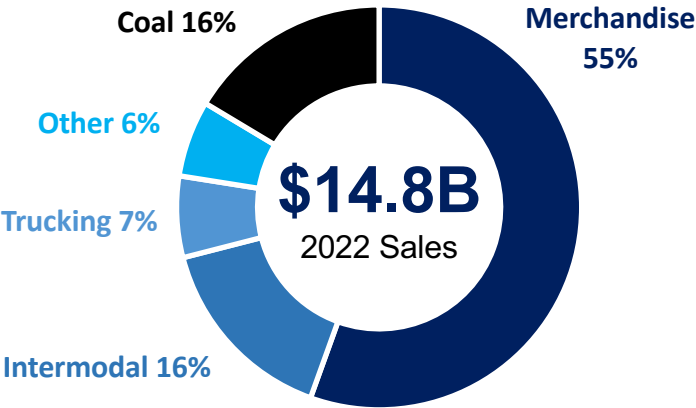
QT Capital

Transport

Business Overview

CSX Corporation is a leading supplier of rail-based freight transportation services based in Florida

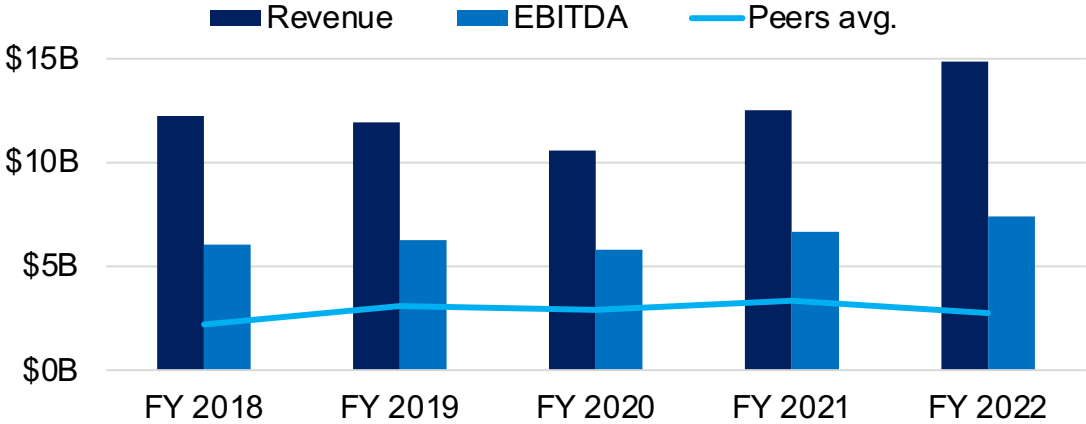
Revenue Sources



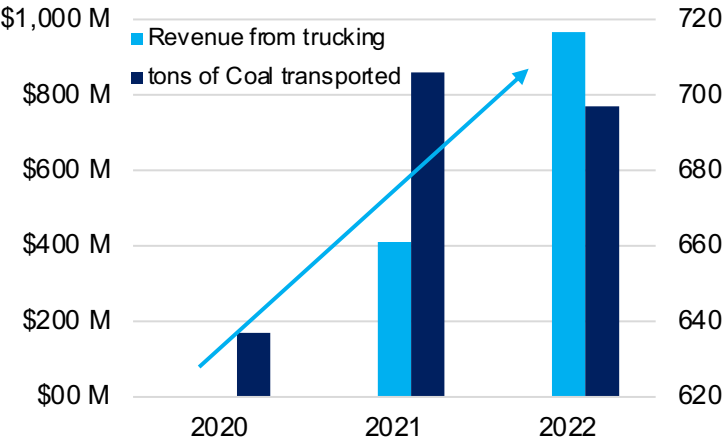
CSX has historically operated in **freight** transportation via its extensive rail network on America’s east coast.

The company is now diversifying its revenue streams with the establishment of its **trucking** and intermodal services.

Leading EBITDA margin



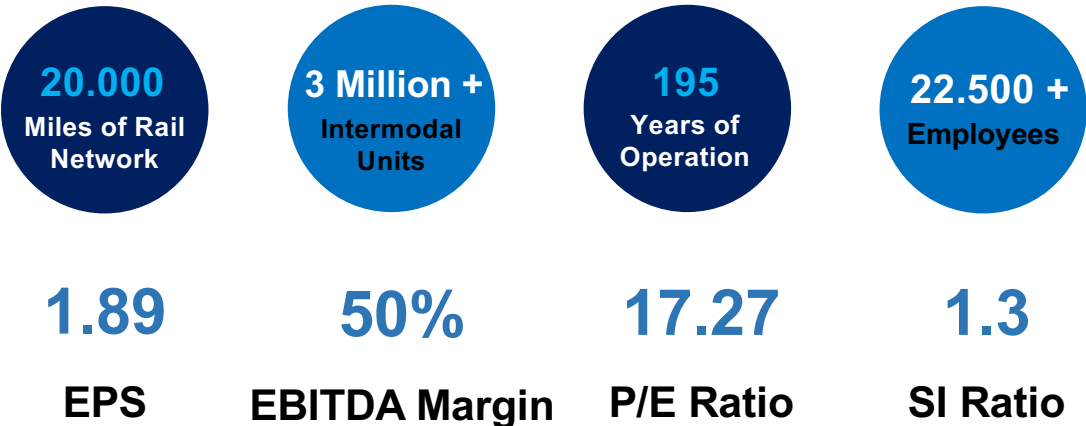
New force in trucking



In just **two** years, CSX has been able to bring its trucking division into competition with the **top 10** US trucking companies.

This new activity comes along the decline in tons of Coal transported by CSX, as the company is now committed to ESG.

Key Operating Indicators



Industry Overview

CSX appears undervalued in an Industry receiving significant public and private sector investment

Industry overlook



- Size of US freight market is **\$77.6 billion** set to grow at a **CAGR of 5.48%**.
- Rail freight accounts for **roughly 40%** of long-distance freight volume, more than any other mode of transportation.
- Rail freight accounts for just **0.5% of U.S. GHG** emissions.

Rail freight industry tailwinds

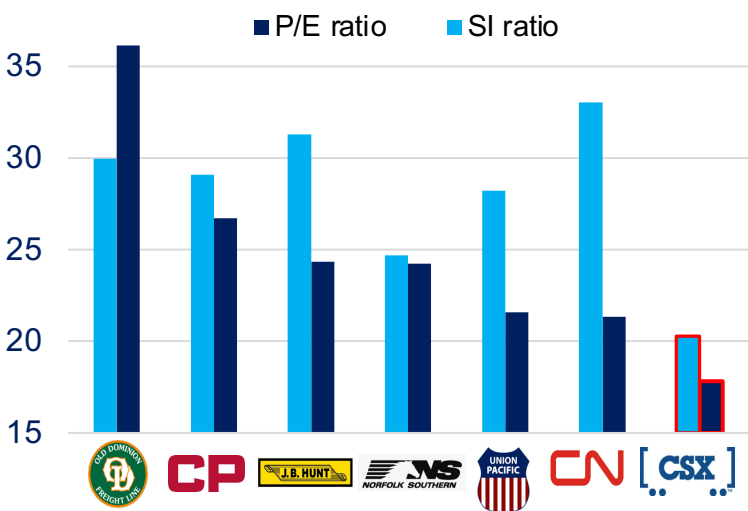
High levels of government investment	• Biden-Harris administration announced \$1.4 billion in Infrastructure Funding for 70 projects targeted at improving rail safety and strengthening supply chains
AI automation of rail networks	• AI and machine learning technology is being used for predictive maintenance, fault detection and optimizing train operations. This will improve efficiency and lower costs
Increased environmental concerns	• Transport sector emits the highest amount of greenhouse gas of all U.S sectors, rail contributes only 2% of those emissions. It will continue to play an important role in reaching net zero.
Outstanding levels of private investment	• Freight rail companies invest a yearly average of \$23 billion to bolster and modernize their privately owned rail networks, that is 6x more than the average U.S manufacturer.



Peer comparison matrix

	CP	UNION PACIFIC	CN	[CSX]	GOULD	NORFOLK SOUTHERN	J.B. HUNT
1Y Return > 0	X	✓	X	✓	✓	X	✓
Lowest SI ratio	X	X	X	✓	X	X	X
50% EBITDA margin	X	X	✓	✓	X	X	X
Revenue diversification	X	X	✓	✓	X	X	✓

PE and SI ratio comparison

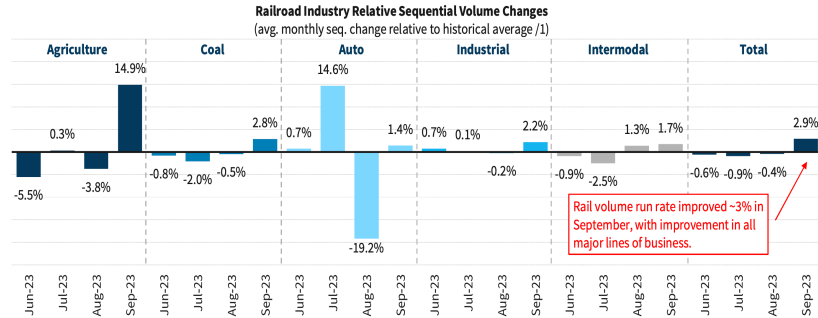


- 5 CSX has the **lowest relative PE and SI ratios**.
- 4
- 3 Given CSX's **leading EBITDA margin** and operational efficiency, we believe this signals CSX is **undervalued**.
- 2
- 1 CSX also has one of the largest numbers of **long** hedge fund holders.
- 0

Thesis 1: Trends and operations support a runway to growth

"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected." - Steve Jobs

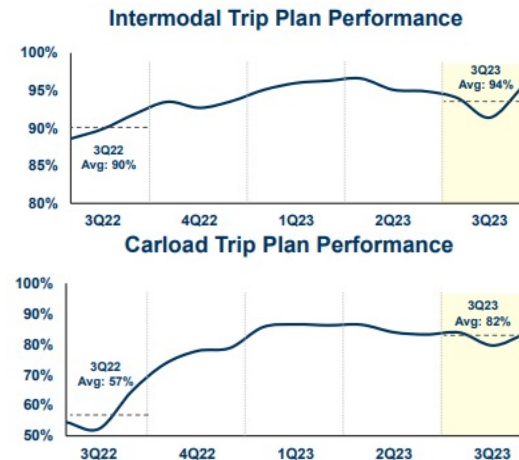
Volume recovery and two-decade long trends are encouraging



Dependable demand is key in CSX's business model and secures **stable cash flow**. We believe the market has failed to consider CSX's dependability and is thus **undervalued**.

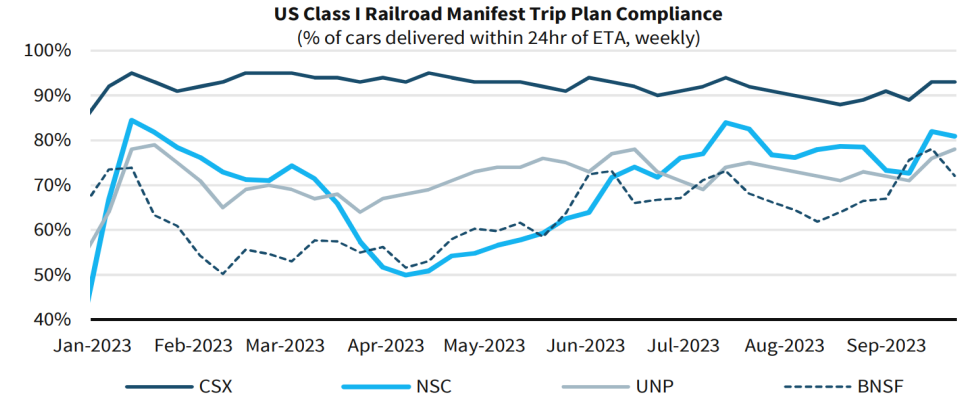
- CSX has stable demand indicated by **minimal movement** in product volume delivered
- Overall run rate **improved 3%** throughout this September, **demand is recovering**

CSX has made great strides in bolstering its service metrics...



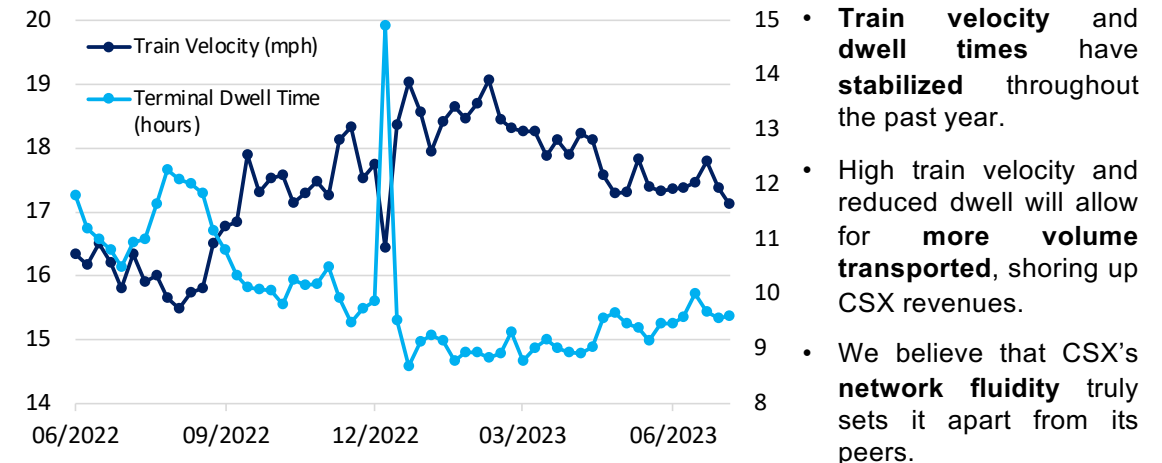
- CSX has **significantly improved** its service metrics since last year, with a **94% intermodal trip plan performance** in 3Q23, up 4% since last year, highlighting CSX's drive to achieve near perfect service.
- Carload trip plan performance however experienced an even more impressive improvement, **rising 25%** in one year to an average of 82% in 3Q23.
- These impressive metrics simply highlight how CSX continues to deliver **industry leading services** and cements our belief that it is undervalued.

CSX delivers unrivalled reliability



In an Industry where dependability is **paramount**, CSX commands a **significant lead**

...with network fluidity that is stronger than its Class 1 peers



- Train velocity** and **dwell times** have **stabilized** throughout the past year.
- High train velocity and reduced dwell will allow for **more volume transported**, shoring up CSX revenues.
- We believe that CSX's **network fluidity** truly sets it apart from its peers.

Thesis 2: Significant expansion in the CSX network

CSX has made major acquisitions and secured industry leading deals to expand their network, paving the road to becoming market leader

CSX accesses Two-Thirds of U.S. Population



- CSX operates **21,800 miles of track**, linking 26 states and 2 Canadian provinces.
- CSX and NS jointly **own Conrail**, with CSX having 42% economic and 50% voting interest, a partnership that **favours CSX's interests**.
- Intermodal partnership** with Canadian national will strengthen reach between East Coast ports in N.Y., Philadelphia, N.J., Montreal and Toronto
- CSX's partnership with CPCK to **expand into Mexico** is a pending move that is sure to cement CSX as the **industry leader**.

Pan Am Railways acquisition extends continental reach



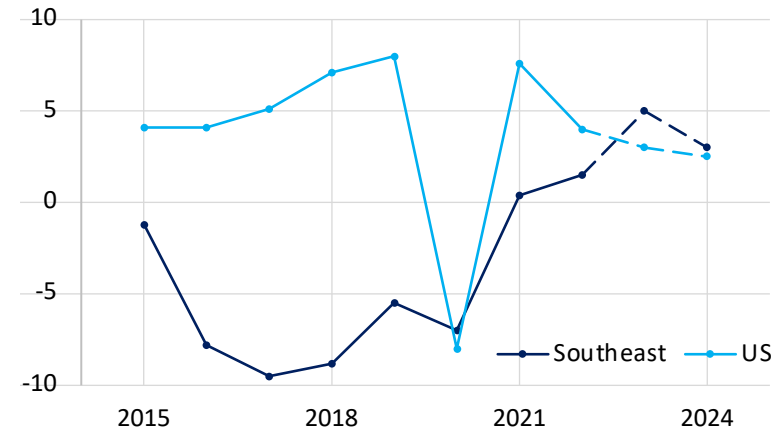
- Pan Am owns and operates a highly integrated, **1200-mile** rail network and has partial interest in the more than 600-mile Pan Am southern system.
- Pan Am has access to multiple ports and large-scale commodity producers.
- This move consolidates CSX's position as the market leader on the east coast and significantly expands reach in Connecticut, New York and Massachusetts.

"We are excited to welcome Pan Am's experienced railroaders into the CSX family and look forward to the improvements we will make together to this important rail network in New England"

- James M. Foote, Former CEO of CSX Corp.

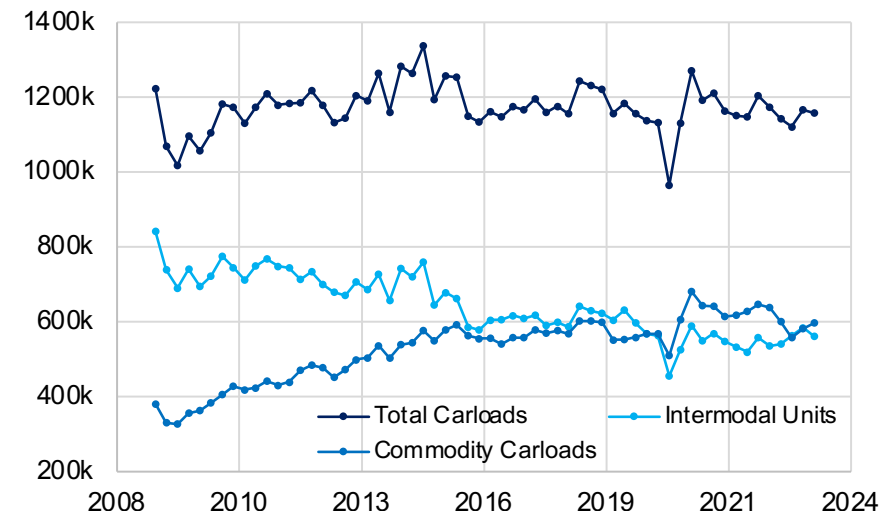


Manufacturing boom in the South-East



- Manufacturing jobs in the Southeast have seen a **sharp increase** which bodes well for CSX.
- The southeast is set to undergo increased development over the next 2 to 3Y enabling CSX to **improve its margins and returns**.
- Anticipated outcome is substantial **EPS growth**.

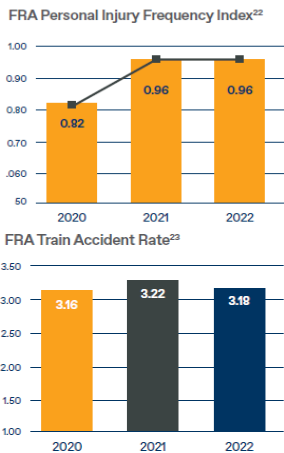
Fifth-largest Rail by originated traffic.



- CSX is the **5th largest railroad** in the US by originated traffic
- Intermodal transport has become a **growing segment** for CSX accounting for 54% of traffic vs 28% in 2006
- Fluctuations in carloads **continue to stabilize**

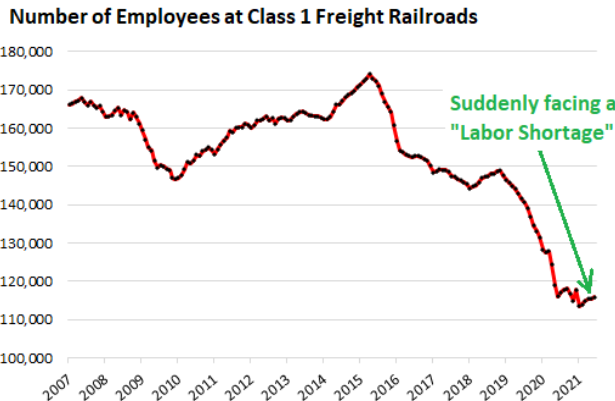
CSX has continuously strived to be the pioneer in establishing railroad safety, improving employee satisfaction and reducing coal-dependency.

Undisputed leader in safety among Class I Railroads in the United States



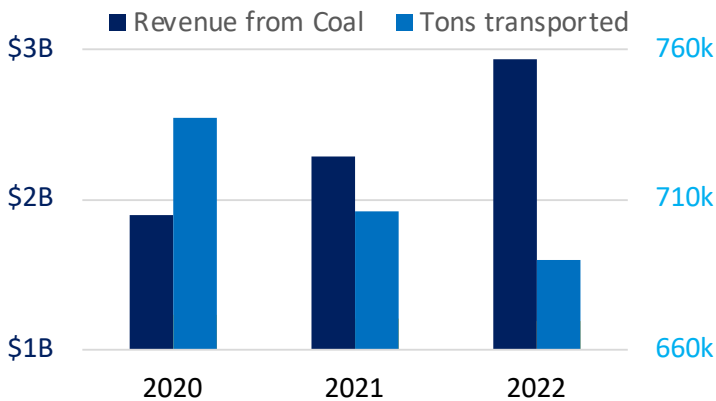
- CSX boasts the **fewest train accidents** and the **lowest average rate of Federal Railroad Administration (FRA) injuries** since 2019.
- \$2.3 billion capital budget in 2023** for investments in technology and infrastructure such as hot bearing detectors (HBDs), automated train inspection portals (TIPs), autonomous track assessment cars (ATACs) and an extensive drone safety program.
- Trained 5,000 first responders, police and employees across 40 events in 35 cities.

Sets precedent to combat demoralising rail environment for employees



- An average rail worker In the US has **only 4 days of paid sick leave**; showcasing the dire working conditions and sinking morale.
- In February 2023, CSX was first to **reach agreements with four separate unions** to increase paid sick leave for railroad workers
- CSX also announced that workers would **no longer be penalized for missing work for medical appointments**

Coal Operations Targeted in Rationalisation



CSX reduced their global GHG footprint (scope 1+2+3) at a **14% CAGR** since 2019.

However, CSX has been **rationalizing its network and control costs**, with coal operations the main target.

Since 4Q15, CSX has **closed facilities** in Central Appalachian fields, offices in Huntington, West Virginia, all of which are **servicing coal operations**

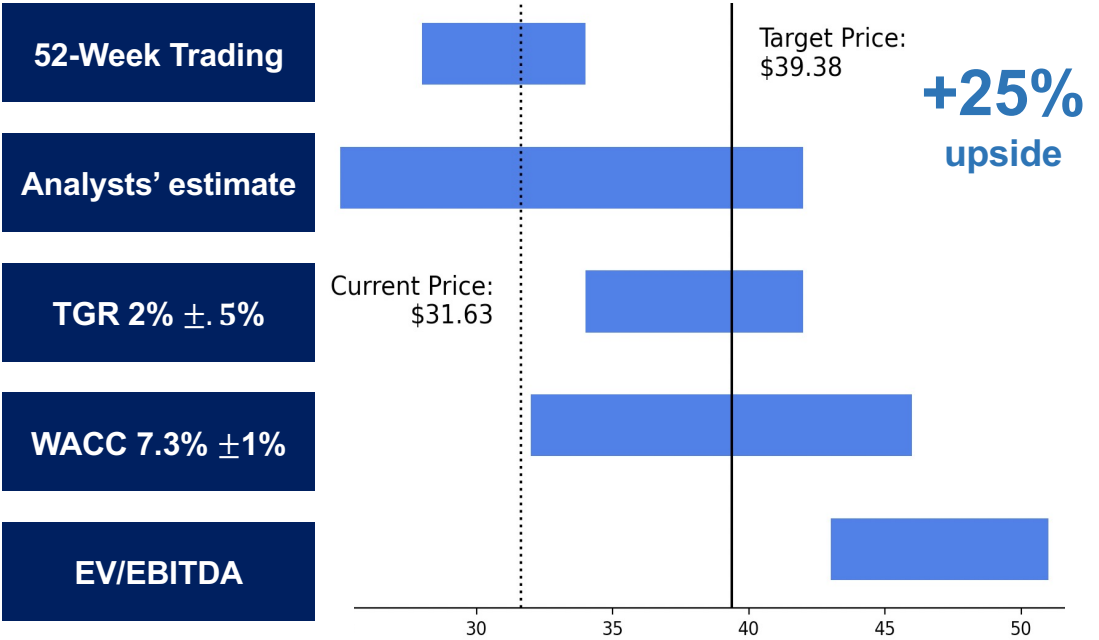
Impressive Breakdown of CSX's ESG Score

Metric	Score	Peer rank
Environment	6.69	Leading
Energy Management	7.45	Leading
GHG Emission Management	5.69	Above Median
Social	5	Leading
Operational Risk Management	4	Leading
Occupational Health & Safety Management	4.93	Leading
Ethics & Compliance	10	Leading
Product Quality Management	3	Leading
Governance	7.52	Leading
Board Composition	7.13	Leading
Executive Compensation	8.21	Leading
Shareholder Rights	6.73	Below Median
Audit	8.67	Leading

Valuation

We believe CSX is undervalued and deserve an implied fair value of \$39.38, representing a 25% upside from current levels.

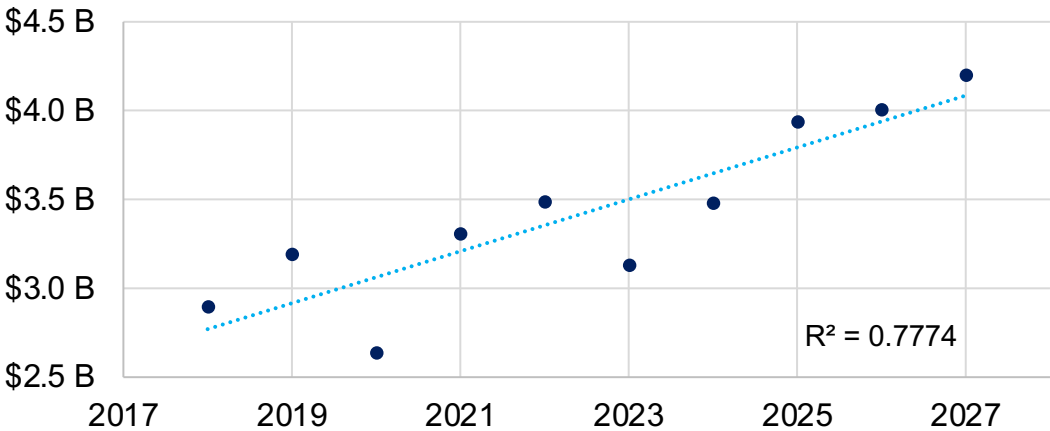
Cross method valuation, all indicators point towards growth



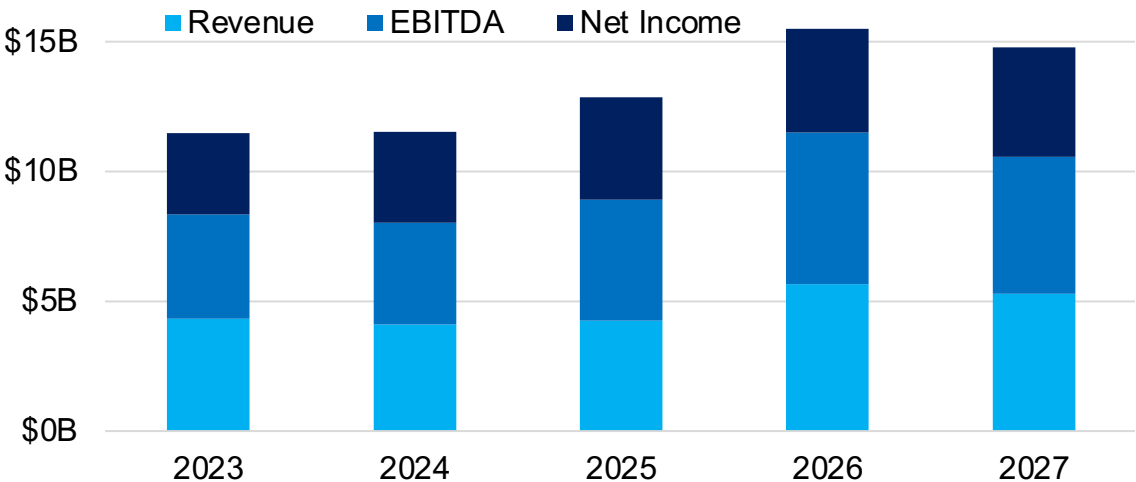
Terminal Growth Rate

WACC	1.00%	1.50%	2.00%	2.50%	3.00%	
	8.3%	-14.5% / \$27.03	-7.9% / \$29.13	-0.2% / \$31.57	8.8% / \$34.43	19.6% / \$37.82
	7.8%	-8.3% / \$28.99	-0.7% / \$31.42	8.3% / \$34.26	19.0% / \$37.64	31.9% / \$41.72
	7.3%	-1.2% / \$31.26	7.8% / \$34.09	18.4% / \$37.46	31.3% / \$41.52	47.1% / \$46.53
	6.8%	7.3% / \$33.93	17.8% / \$37.28	30.6% / \$41.32	46.4% / \$46.31	66.3% / \$52.60
	6.3%	17.3% / \$37.09	30.0% / \$41.12	45.7% / \$46.08	65.5% / \$52.35	91.3% / \$60.51

Realistic dynamic Free Cash Flow growth



Steady EBITDA and Net Income margins



Risks & Mitigants

Risks faced by CSX and how they are mitigating them.

Risk Matrix		Risks	Potential Impact	Mitigants
<div><div>Likelihood</div><div>Impact</div><div><div><div></div><div></div><div></div><div>1&2</div><div>4</div><div></div><div></div><div>3</div><div></div></div></div></div> <div><div>1. Decline in Coal Volumes</div><div>2. Labour Disputes</div><div>3. High Interest Rates</div><div>4. Rising Fuel Prices</div></div>		<div><div>Risk 1:</div><div><div>Coal volumes are expected to decrease as people shift towards more eco-friendly alternatives</div><div>Coal Freight makes up 16% of CSX's revenue.</div></div></div>	<div><div>Decrease in coal volumes would impact industry Revenue.</div></div>	<div><div>CSX's earnings per ton of coal transported has been rapidly increasing</div><div>Expected growth of 3% in MF volumes this year, despite recession fears.</div></div>
		<div><div>Risk 2:</div><div><div>Labour disputes often caused by lack of pay/ sick leave/ etc...</div></div></div>	<div><div>Strikes prevent operation of locomotives, impacting revenue.</div><div>Settling disputes in 2022 increased CSX's labour and fringe costs by 12% and 24% respectively.</div></div>	<div><div>Congress, which has authority over inter-state commerce, has intervened in railroad labour negotiations 18 times since 1926.</div><div>Therefore, serious strikes are unlikely.</div></div>
		<div><div>Risk 3:</div><div><div>Higher interest rates and rising inflation would negatively impact consumer demand.</div></div></div>	<div><div>Lower demand for goods like cars would lead to decreases in freight volume.</div><div>Thus, impacting CSX's revenue.</div></div>	<div><div>Rate hikes by the FED have likely ceased.</div><div>Subsequent rate decreases throughout 2024 will aid CSX and general freight volumes.</div></div>
		<div><div>Risk 4:</div><div><div>Railroad diesel prices have been rising sharply, increasing CSX's fuel expenses by 78% in 2022.</div></div></div>	<div><div>Increased fuel expenses for CSX lead to a 27% YOY increase in OpEx in 2022.</div><div>This negatively impacts profits.</div></div>	<div><div>CSX partnered with Wabtec in 2022 to start testing Biofuel locomotives.</div><div>CSX and CPKC in joint venture to develop Hydrogen locomotives as well.</div></div>

Catalysts & Event Path

Click to edit Master title style

CSX-specific catalysts	
Catalyst	Analysis
CPKC/CSX collaboration	<ol style="list-style-type: none">US–Mexico corridor Canadian Pacific Kansas City and CSX announce a joint acquisition of a rail link between Meridian in Mississippi and Linden in Alabama, effectively expanding CSX's reach to Mexico.Hydrogen Locomotives As a step toward improving sustainability practices, CSX announces a joint venture with CPKC selling hydrogen conversion kits for diesel locomotives.
Autonomous track testing cars	CSX introduces Autonomous Track Assessment Cars (ATAC) to monitor the health of railways, allowing for continuous gathering of critical track data that forecasts issues such as fatigue cracks and warping .
Gulf Coast Corridor Improvement Project	Hurricane Katrina severely disrupted railway lines in its wake, leaving areas of Alabama, Mississippi, and Louisiana up to \$178,435,333 - of which CSX and non-federal investors invested 20%—will fund the development, final design, and track/signal related improvements to restore reliable freight lines between New Orleans and Mobile.
Port of Baltimore Strategic Acquisition of Battery Electric Locomotives Project	Government investment of +\$15M will fund the first ever zero-emissions locomotives and charging station to an east-coast port in Maryland. Three high-emission locomotives will be decommissioned, and CSX will operate their three battery electric counterparts out of <i>Curtis Bay</i> terminal.

Short Term	Medium Term	Long Term
<ul style="list-style-type: none">CSX announces construction of new \$25 million intermodal container storage unit in Chicago, which will enhance service and reach to local customers.CSX expanding newly created trucking division.	<ul style="list-style-type: none">In October 2023, CSX reached an agreement to create new direct connection and corridor linking Mexico and the US.Laying a pathway for the transition from trucking to freight rail.	<ul style="list-style-type: none">In mid-2022, CSX announced the develop further of hydrogen locomotives alongside CPKC, aiming to boost its fleet of zero-emission locomotives.



A blue and yellow CSX locomotive is shown on tracks under a clear blue sky. The locomotive has the CSX logo on its side and a large white 'CSX' text overlay in the center. The locomotive is moving towards the left. The tracks are visible in the foreground, and a concrete bridge structure is in the background.

CSX

Thank you

Appendix 1: Trading Comparables analysis

Ticker	Company	Share Price	nbr of Shares	Enterprise Value	Market Cap	Revenue Growth		EBITDA Margin		Profit Margin		EV / Revenue		EV / EBITDA	
						2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
CSX	CSX Corp.	\$31.63	1,976	80,543	64,016	19%	(2%)	50%	49%	26%	25%	5.4x	5.5x	10.9x	11.3x
JBHT	J.B. Hunt	\$183.05	103	20,250	18,800	1%	(12%)	11%	16%	8%	7%	1.6x	1.9x	15.2x	11.4x
KTK	KTK Group	\$1.31	783	1,132	1,028	(11%)	(0%)	9%	10%	5%	7%	2.2x	2.2x	23.8x	21.4x
ODFL	Old Dominion Freight Line	\$404.32	109	43,990	44,120	19%	(6%)	29%	28%	22%	21%	7.0x	7.5x	23.9x	26.6x
SRAIL	Stadler Rail	\$35.92	100	3,815	3,592	(1%)	10%	8%	9%	2%	4%	1.0x	0.9x	11.8x	10.4x
CP	Canadian Pacific	\$72.19	932	83,310	66,540	10%	28%	64%	(8%)	40%	37%	9.5x	7.4x	14.7x	-88.9x
CNR	Canadian National Railway	\$157.24	648	120,040	101,840	18%	(1%)	53%	53%	30%	29%	7.0x	7.1x	13.3x	13.4x
NSC	Norfolk Southern	\$199.07	226	60,090	45,017	14%	(3%)	47%	38%	26%	17%	4.7x	4.9x	9.9x	12.8x
TRN	Trinity Industres	\$23.32	82	7,580	1,909	30%	24%	17%	27%	4%	4%	3.8x	3.1x	22.7x	11.5x
UNP	Union Pacific	\$215.33	610	161,370	127,650	14%	(3%)	51%	49%	28%	26%	6.5x	6.7x	12.8x	13.6x
GET	Getlink	\$16.09	540	12,620	8,490	107%	22%	29%	31%	16%	18%	7.9x	6.4x	27.4x	20.5x

	2023 Trading Multiple			Enterprise Value			Equity Value			Share Price
	Revenue	EBITDA	P/E	Revenue	EBITDA	Net Income	Revenue	EBITDA	Net Income	
Minimum	1.9x	10.4x	16.0x	27,150	74,316	59,063	10,633	57,799	42,546	\$29.25
1st Quartile	3.5x	11.4x	20.2x	51,717	81,657	74,575	35,200	65,140	58,058	\$32.97
Lower Limit 75%	4.8x	14.2x	21.7x	70,466	101,226	80,075	53,949	84,709	63,558	\$42.87
Mean	5.3x	15.3x	22.8x	76,924	109,238	84,215	60,407	92,721	67,698	\$46.92
Upper Limit 75%	5.7x	16.4x	23.9x	83,381	117,249	88,355	66,864	100,732	71,838	\$50.98
3rd Quartile	7.0x	18.7x	24.0x	102,280	133,989	88,577	85,763	117,472	72,060	\$59.45
Maximum	7.5x	26.6x	35.6x	109,668	190,026	131,477	93,151	173,509	114,960	\$87.81

Appendix 2: Discounted Cash Flow analysis

\$M	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue, Adj	12,250.0	11,937.0	10,583.0	12,522.0	14,853.0	14,614.2	14,995.8	16,795.0	19,507.6	18,978.6
<i>Growth %, YoY</i>	7.4	-2.6	-11.3	18.3	18.6	-1.6	2.6	12.0	16.2	-2.7
Gross Profit, Adj	—	—	—	—	—	—	—	—	—	—
<i>Margin %</i>	—	—	—	—	—	—	—	—	—	—
EBITDA, Adj	6,046.0	6,269.0	5,792.0	6,649.0	7,394.0	7,149.2	7,417.5	8,598.8	9,849.8	9,483.8
<i>Margin %</i>	49.4	52.5	54.7	53.1	49.8	48.9	49.5	51.2	50.5	50.0
Net Income, Adj	3,200.3	3,198.1	2,737.4	3,378.3	3,908.0	3,695.2	3,837.6	4,002.8	4,148.3	4,293.9
<i>Margin %</i>	26.1	26.8	25.9	27.0	26.3	25.3	25.6	23.8	21.3	22.6
EPS, Adj	1.24	1.33	0.40	1.50	1.83	1.83	1.98	2.03	2.10	2.17
<i>Growth %, YoY</i>	65.5	7.8	-70.3	279.1	21.8	0.2	8.2	2.1	3.6	3.5
Cash from Operations	4,641.0	4,850.0	4,263.0	5,099.0	5,619.0	5,768.2	5,966.3	6,653.8	7,702.6	7,446.8
Capital Expenditures	-1,745.0	-1,657.0	-1,626.0	-1,791.0	-2,133.0	-2,108.9	-2,169.6	-2,449.6	-2,814.9	-2,743.3
Free Cash Flow	2,896.0	3,193.0	2,637.0	3,308.0	3,486.0	3,130.9	3,480.2	3,938.3	4,006.3	4,201.0
Present value of FCF						2,887.9	3,198.6	3,606.1	3,654.2	3,816.3

Terminal Value in Y5	80,766
Present value of TV	73,370
Enterprise Value	90,534
+ Cash	2,087
- Debt	18,604
Equity Value	74,017
Shares	1,976
Share Price	\$37.46

% Debt	59.57%
Cost of Debt	4.12%
Tax Rate	24.87%
Equity Value	12,625
% Equity	40.43%
Cost of	8.23%
Risk Free Rate	4.41%
Beta	0.99
Market Risk	3.23%
Debt + Equity	31,229

from US10Y

7.64%

WACC 7.31% ← from Bloomberg
TGR 2.00%

