



## Union Pacific Bulls See Economy Turning Higher

**Ticker/Price:** UNP (\$168.9)

### Analysis:

**Union Pacific (UNP)** on 9/16 with 4,000 February \$180/\$190 call spreads opening and the \$175 calls with over 1000 bought to open as well. UNP also has 8,755 June \$170 calls in open interest from buyer accumulation. UNP shares have been consolidating for 6 months in the \$160/\$175 range which measures to \$190 on a breakout, and recent Oil strength could boost its crude by rail business. The \$119B Rail trades 16.75X Earnings, 43.35X FCF and 12.8X EV/EBITDA with a 2.3% dividend yield. UNP posted 37% EPS growth in FY18 and sees 12.5% this year and 13% next year. UNP was out in early September expecting weaker 2H volumes. Q3 volumes down 8% with Energy the biggest drag and Industrial the positive contributor. Analysts have an average target of \$185 and short interest low and near a five-year low of 0.8% of the float. Weakening freight and worries over an economic slowdown cause by the trade war as well as pricing competition from truckers has weighed on Rail stocks, but Precision Rail still seen as a positive tailwind. UBS out this morning with a \$193 target, while Raymond James has a \$197 target after a strong operational ratio improvement last quarter and solid numbers despite flood impact. CSFB is at Outperform with a \$198 target, citing strong productivity improvements. Hedge Fund ownership rose 8.35% in Q2 filings, Soroban Capital adding to a large stake and now a 10.97% weighting. Lone Pine also added and now its 7th largest position.

### Hawk Vision:



**Hawk's Perspective:** UNP is a best of breed Rail and starting to see signs of economic improvement which would be a big boost for the Rails, a name to target for a move to \$190-\$200 over the next 3-6 months.

**Confidence Ranking:** \$\$