

Norfolk Southern (NYSE: NSC)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$104.48	\$79.89	\$81.00	\$56.05	1.21	14.77	\$24.9 billion	2.8%

Industry Trends

The Railroad transportation industry relies heavily on three main revenue streams; coal, general merchandise, and intermodal transport. There has been a recent push away from coal, the biggest revenue producer for NSC. To counter this push, shale regions have become more reliant on Crude-by-Rail (CBR) transportation. The Railroad industry will continue to grow with their new "double track double stack" approach, allowing their already cost effective business to increase shipment volume, driving profits to all-time highs.

Investment Thesis

Norfolk Southern is a Railroad transportation company that shares the East and South-East of the United States with its main competitor CSX Corp. Management has a proven record of returning equity to shareholders through their stock buyback programs. With a consistent ROE of 17% and the highest dividend yield of all industry competitors, long-term investors should find it difficult to ignore this value creating business.

Business Summary

Specializing in shorter-haul transport compared to Union Pacific and Burlington Northern, NSC relies heavily on coal, chemical, automotive, and intermodal transport. Intermodal transport is increasing due to a widening of the Panama Canal which will allow for Asian ships easier access to East Coast. The Marcellus shale region in the heart of Pennsylvania is a great advantage over its closest competitor, CSX. With the decline in demand for coal, natural gas coming from Marcellus shale along with the necessary products needed to extract the natural gas has allowed countered any losses in revenue. In the long-term I look for Norfolk Southern to grow 12% annually.

NSC 1 year stock performance vs. S&P 500:



Comparable Ratios:

	NSC	CSX	UNP	CNI
P/E	14.8	13.8	16.8	18.6
Div. Yield	2.8%	2.3%	1.9	1.5%
Beta	1.21	1.31	1.10	.94
PEG	1.68	3.63	1.26	1.56
Market Cap	24.9bn	26.05bn	70.6bn	44.6bn
Operating Margin	28.3%	28.9%	29.3%	36.4%

Info from Yahoo Finance, Bloomberg, Value Line, and Morningstar as of October 14, 2013

Competition:

- Three of NSC's major competitors are: CSX Corp, Union Pacific, and Burlington Northern

Pros:

- High barriers to entry, persistent pricing power (the industry as a whole)
- Expansion of the Panama canal should increase NSC's intermodal transportation, driving long-term growth
- Crude-by-Rail (CBR) in Marcellus Shale region in growing need, which should help counter low coal demand
- Double stack, double track method to increase volume and in turn increase revenues year to year.

Cons:

- The possibility of government regulation decreasing pricing power, consequently effecting profits
- Low demand for coal driving down profits, not only NSC but entire industry
- Capital intensive business

Value Estimate:

\$95 - \$134

(2016-2018)

Estimated Real Annual Return:

9% - 13%

Overall Rating:

Expected inflation	Four Stars
Current EPS	3%
Forecasted EPS Growth	5.41
Credit Quality	13%
ROE	A
ROA	17.33%
Price/Book	6.19%
Debt/Equity	2.4
Debt/Capital	0.832
Current Ratio	0.45
Price/Cash Flow	1.15
10 yr. Risk Free Rate	32.8
WACC	2.8%
	9.4%

Corporate Responsibility:

	Industry Avg.	
Equal Opportunity Policy?	Yes	Yes
ESG overall rating	53.31	24.83
Carbon emissions rating	88	76.5
Community spending	4.39M	4.81M
Total energy consumption	20.26 MWh	22.96 MWh

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