



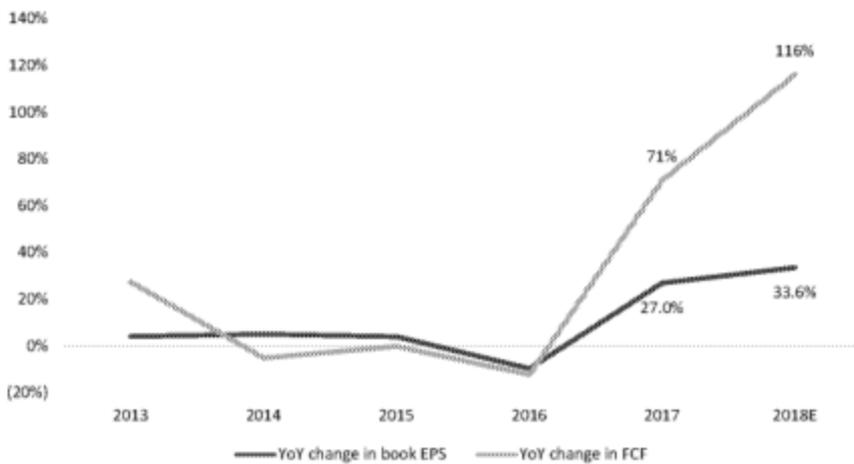
Figure 3: ODFL NTM P/E relative to the S&P



Source: Deutsche Bank

- Rails - Cash return key driver of equity value:** With a relatively benign volume and pricing environment for rails (puts and takes on mix offset by pricing power from industry structure and truckload tightening), the key driver for rail stocks, in our view, is FCF growth over-and-above book EPS growth (i.e. >100% incremental fcf conversion) and share buybacks. From this perspective CSX screens the most favorable to us (hence our top rail pick), with mgmt. recently pointing to repurchasing \$5B of its own shares (10% of market cap) over the next 12 months. This, coupled with ambitious OR targets, translates to even higher EPS power in 2020 (our 2020 EPS estimate of \$4.65 translates to 27% EPS CAGR vs. 2017 and even higher on a FCF basis given lower capex, which under any reasonable valuation scenario equates to much higher equity value).

Figure 4: CSX yoy EPS growth vs. yoy FCF growth



Source: Deutsche Bank, Company Filings