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Morgan Stanley reported on Monday that indications favor strong yoy volume increases for truckload and intermodal sectors. Regarding the rails, analysts Jim Valentine and Chris Leshock write, "There's a very limited upside for the railroads. Intermodal volumes are among the lowest-rated railroad segments [as to profitability], and thus we don't expect meaningful upward earnings revisions just yet."

Elsewhere, the report goes on to suggest that the threat of a longshoreman strike in July may be causing some preshipping and that in turn may be driving some of the yoy growth we've seen in container loadings. Whether they are sustainable is open to question. Still, the fact remains that container volumes re up 5.2% YTD, 12.3% in the second quarter to date, and 15.0% for the week ending May 4. In the carload trade motor vehicles ought to "remain a source of slow but steady growth." GM's increased production schedule is a significant contributor.

Illinois Central got the STB's blessing for its petition seeking permission to cross the KCS to get to the ExxonMobile Polyolefins plant in East Baton Rouge. IC has agreed to bear the cost of furnishing, installing, and maintaining the crossing and its signals, and to compensate KCS for the crossing, all of which fits Board precedent. Earlier KCS objected to the crossing on the grounds of potential interference with its operations. The Board found otherwise saying, "the interference would be neither material nor unreasonable."

Wal-Mart named BNSF "Rail Provider of the Year" for the fourth consecutive year. Being so named – and being the only railroad ever so singled out – is quite a coup. Selection criteria for the award included systems technology, on-time pick up and delivery, customer service, pricing, equipment capacity and ease of doing business.

Also, it seems to me there was a time Wal-Mart wouldn't even consider rail. What's changed is summed up best by Steve Branscum, group vice president, BNSF Consumer Products. "Premium intermodal and carload transportation products that deliver speed, reliability and consistent service will strengthen the relationship still further." In other words, being a supply chain partner beats selling strictly on price any day.

Genesee & Wyoming Inc. (GNWR) April carloads were up 13.2% in North America and 6.9% in Australia compared with April 2001. Excluding the recent South Buffalo and Emons acquisitions April was actually off 10.2% for the NA side. As expected, this decrease was primarily the result of a decline in coal shipments, primarily in the company's Illinois Region due to scheduled plant maintenance and stockpile reductions at two power plant customers.

In Australia iron and gypsum contributed half and a quarter of the increases respectively. Grain traffic continues to be constrained by port congestion that is expected to ease over the balance of 2002. Also in April 2002, ARG continued to provide contractual haulage and construction services for the Alice Springs to Darwin rail line project, which is not reflected in these carloadings

Bangor & Aroostook subsidiaries Logistics Management Systems, Inc. and Van Buren Bridge Company voluntarily filed for Chapter 11 bankruptcy on Wednesday. Negotiations continue with the Rail World consortium are continuing. The Purchase & Sale Agreement is in its final stages. The bankruptcies of these subsidiary companies of The Bangor & Aroostook Railroad will aid in the successful completion of the asset sale to the consortium.

Trials continue at Trinity Industries (TRN) as shares fell Thursday to a new low after the filing of a lawsuit alleging it used an unsuitable wax coating that caused premature corrosion of its barges. Three of 18 barges Florida Marine bought from TRN had to be decommissioned, however even if all 18 barges were to be replaced at roughly \$31 mm, that represents less than 10% of the March quarter's sales. The effect on TRN's bottom line would be minimal, said one analyst.

The core railcar business needs to pump some 8,000 units out the door to break-even, according to the S&P stock report. The company's most recent 10-Q reports "With the current railcar market, our shipments are expected to be 5,000 to 7,000 in 2002." TRN shares remain in a trading channel topping out around \$20 with a dip to \$18 on Thursday, since recovered. Schwab's new Equity rating system gives the company an "F" and S&P says "avoid." Moreover, the techs rate TRN as a short candidate based on several converging indicators.

Kansas City Southern, like GNWR and Wisconsin Central pre-merger, reports earnings of its non-US affiliate as equity contribution below the line. In FY 2002 its 39.6%-owned unconsolidated affiliate Grupo TFM and Panama Rail contributed a third of the net income before interest and taxes. So when TFM is challenged, as it was over a recent dividend dispute with co-owner Grupo TMM, parent company shareholders take notice.

This week Mexican antitrust regulators blocked the mergers of two competing railroads saying the combination would create a railroad monopoly controlling 70% of international rail traffic and 64% of the domestic trade. The ruling against the merger was not unexpected as TMM had objected earlier this year. Under the privatization rules set in 1995, railway operators were restricted to a five-percent stake in rival companies, with the objective being to encourage railway competition and efficiency, the better to beat the truckers.

Nuisance-department: The state of Illinois EPA hit UP with a \$250,000 fine relating to a March 1999 collision that occurred when an eastbound Conrail train failed to stop at a signal and struck a UP locomotive and resulting in a fuel spill. UP maintains the release was "promptly reported and remediated." Talk about adding insult to injury. Seems to me these EPA types ought to have better things to do with their time.

We keep seeing notes about fund managers looking for under-appreciated small cap companies, and every once in a while a rail pops up. While I don't disagree with the writer's premise, as an industry professional I find the choice of words amusing. "Finally, [a fund manager in SF] favors railroad operator Genesee & Wyoming which concentrates on short-track rail lines - one of the few companies to do so." Few? At last count there are more than 500 "short-track" rail lines.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.