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**The Railroad Week in Review 7/12/2002**

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Friday's final plunge took the DJIA down 8% for the week and the US class 1s went right along with it. UP and BNSF had remained somewhat above the fray until noon Friday when they capitulated as well. This despite the fact that UP was upgraded to "overweight" by Morgan Stanley on Friday. The drivers are stronger than expected carload growth, a stock price (\$59.55) that produced a reasonable multiple, and an attractive upside (\$67).

The malaise spread into Canada so there was no saving grace there. And neither KCS nor FEC did any better. Only GNWR managed to hold its own, off a crumb, while RRA was down 2%. Among railroad suppliers TRN only lost a percent even in Friday afternoon's sudden downdraft. GBX took a slightly larger hit, say 5%, while WAB and GATX waxed down 5% and 8% on the week. All of which is most perplexing as the economic tea leaves would have us believe things ought to be looking better than they are. The consensus is for third quarter GDP growth of about 3% though some economists say that could be on the low side.

But talk about mixed signals -- University of Michigan's Consumer Sentiment Index came out substantially weaker than expectations. The July reading came in at 86.5, down from 92.4 in June and well under the consensus estimate for a reading of 93.0. These numbers are likely to weigh on the market as with the concern being a consumer retrenchment will exacerbate an already soft economy. Meanwhile June retail sales rose by 1.1%. Go figure.

Paper Companies are not doing well. Bowater (BOW) and Mead Westvaco (MWV) have both garnered an "F" from Schwab's new equity rating system. S&P's industry report gives six of the 13 paper companies listed "not meaningful" trailing PEs, indicating negligible earnings or less. Shortlines heavily involved in the paper trade would be well advised to look at their paper customers' financials and see if any exit strategies are warranted.

Looking forward, the consensus seems to be that further production cuts, especially at older plants, are inevitable and that competition from offshore sources remains strong. Nobody's advising a run for the exits, however attention must be paid.

Norfolk Southern (NSC) has purchased the private (non-railroad owned) lines of Peabody Coal and Yankeetown Dock in south central Indiana. The 21-mile line (see p21, Steam Power Video's Great Lakes East volume) runs between Lynnville Mine and Warrick, crossing NS at Boonville. A Peabody predecessor and three other companies formed Yankeetown Dock, a private carrier and rail-barge coal transfer facility, in 1953. Peabody became the sole owner last year. The Yankeetown Dock itself, a rail-barge coal transfer facility on the Ohio River at Warrick (Newburgh), is not part of the purchase.

At Warrick, the Yankeetown's private line serves the dock and the Alcoa manufacturing complex, including on-site generating units that provide electricity for aluminum production. Some 2.5 million tons of coal and several thousand merchandise loads move to Alcoa yearly. Back in 1956 the ICC gave the Southern non-coal rights to Alcoa while the line's owners ran the coal trains from Lynnville to Warrick. With this deal NS gets the coal business as well.

RailAmerica's Indiana Southern (ISRR) enters Lynnville Mine from the north and via a connection built in Dec 2001. Last April ISRR won a shortline marketing award for its new agreement with Peabody, giving ISRR operating rights over the trackage that NS just bought. ISRR, under limited trackage rights, will continue to handle some of the Alcoa coal.

CSX Corp. has tapped Mike Ward as president. This is a great move up because Ward now gets to guide CSXI and Tech as well as Tee. Chairman and CEO John Snow relinquished the presidency to Ward. Clarence Gooden moves to SVP of the Merchandise group at Tee while Alan Blumenfeld takes on the mantle of CSXI president. Bill Flynn is leaving CSX for GeoLogistics Corp., where he will be CEO.

KCS veteran Ab Reese will be leaving his post as SVP Operations with Jerry Heavin to follow. The latter joined KCS just last year at VP and Chief Engineer. Reese will stay in the industry, though the name of his new employer was not disclosed. He will stay in through July "to assure an orderly transition."

Oregon's Mount Hood Railroad, a 21-mile shortline with roots going back to 1905, is the third successful applicant under the RRIF loan program administered by the FRA. As reported in "Views & News," the Official ASLRRRA newsletter, "The \$2 mm infrastructure and debt-reduction loan is a success for the industry. It is also a sign that the FRA and the OMB agree on the methodologies that will be used to process these loans." Member shortlines should contact Steve Sullivan at [sullivan@aslrra.org](mailto:sullivan@aslrra.org) for help in applying for funds under this program.

As an aside, it is amusing to note the Amtrak *crisis du jour* may cut loose some RRIF funds to keep running. Congressional observers, however, are not amused. The ASLRRRA notes that "securing approval of these loans has been a frustrating experience for the shortline industry." Applications have languished for years amidst interagency squabbles among FRA, OMB and Congress. Amtrak applied for RRIF bucks in June and in just two weeks did what it's taken two years for the shortlines to do. There is some doubt whether Amtrak could have ever qualified had certain political strings not been pulled. The good news is shortlines now have a precedent.

Liquidity in a stock position refers to how readily shares may be available for purchase or for which there is a ready market for sale. According to the Motley Fool's Guide to Financial terms, "Having too many shares of a stock that doesn't trade frequently would make for a position that cannot necessarily be sold." One measure is dollar volume – a \$million a day is a good start. The attached chart provides sample volumes and closing prices.

In a sideways market like this one wants to be able to get in and out of positions promptly. It will not due to be long in an equity that, as one wag said, "trades by appointment." Perhaps the chart below will help frame the argument a little better.

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*Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. 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.*

### Rail Industry Stock Closing Prices and Volumes

Tick	Recent Close	Shares Traded	Dollar Volume
UNP	\$ 63.45	797,100	\$ 50,575,995
BNI	\$ 30.43	896,200	\$ 27,271,366
CSX	\$ 36.14	694,200	\$ 25,088,388
CNI	\$ 52.00	321,500	\$ 16,718,000
NSC	\$ 23.30	600,900	\$ 14,000,970
TRN	\$ 20.08	146,500	\$ 2,941,720
CP	\$ 24.87	79,600	\$ 1,979,652
GNWR	\$ 20.99	19,400	\$ 407,206
WAB	\$ 13.38	22,100	\$ 295,698
FLA	\$ 24.55	11,300	\$ 277,415
RRA	\$ 10.52	11,700	\$ 123,084
PWX	\$ 8.06	500	\$ 4,030
GBX	\$ 7.35	200	\$ 1,470

Source: Railroad stock charts