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It appears there may be more to the recent CSX earnings warning than just coal. For 3Q01 coal revs were \$417 mm on 422,000 carloads. According to CSX 3Q02 coal carloads may be down 5% and revs down \$35 mm from 3Q01. That equates to an 8% revenue hit and a 20,000-carload shortfall. Average revenue per car in this scenario declines to \$950 from \$988, four percent. Another way, a \$35 mm revenue shortfall where the net margin is 6.5% represents a \$2.3 mm hit to net income or a penny a share.

AAR North American freight traffic for 3Q through Week 35 (ending 8/31) is up 4% with coal off 0.7%. CSXT for the same period is up 1.4% with coal off 6.3%. For the same period arch-competitor NS sees a 6.3% gain in total volume with coal actually *up* 0.7%. Morgan Stanley's Jim Valentine estimates FY 2002 earnings at \$2.00, off \$0.27 from his prior mark, and FY 2003 at \$2.70, down from his prior \$3.00.

The surprise is this a surprise at all. The rail car loadings the AAR uses aren't exactly classified information. The CSXT situation is perhaps somewhat weather-related but also something followed by analysts and portfolio managers. My good friend and veteran rail stock watcher Drew Robinson (www.railmatch.com) writes from NY, "The advantage of rail stocks is that everyone knows pretty much how things are going on a weekly basis. There shouldn't be big surprises. Does that mean the fast money was in rail stocks of all places? Has it left? Will it come back?" Good questions all.

Rail stock prices this week bracketed the DJIA, down a percent. NS and CN both beat the Dow by about 4%, UP by one percent. BNSF was unchanged while CP and CSX each lost some ground. FEC took the honors among the smaller rails, up 5%, followed by KCS and GNWR, bracketing the DJIA above and below respectively. RRA took a 15% hit on no news other than Warburg opening its RRA coverage with a Hold.

The group trades in a range of 8 to 24 times 2002 earnings with CP and RRA the low and high respectively. BNSF, CN and UP are on within the expected trading range of 12 to 15 times earnings. GNWR is a tad higher at 16 and CSX is getting a bit pricey at 17 times earnings. KCS stands at 18 times, perhaps a reflection of the Mexican franchise and improving US results. NS traditionally trades at high multiples – we'll have to see what happens at the present 20X.

Recent conversations with NS and UP lead me to believe there is a very strong merchandise carload franchise being made even stronger with unprecedented and coordinated initiatives with operations and commercial disciplines working side-by-side. On some other properties I still see the same disconnects between what senior management tells The Street and the way the local trainmaster runs *his* railroad. This has got to stop, and I think investors aren't going to put up with many more surprises.

All the rails participating in this week's J P Morgan Logistics Conference were pretty upbeat about the rest of the year. Tom Hund, CFO at BNSF, pointed to gains in the industrial products group, usually seen as leading indicators of an improved economy. His UP counterpart, Jim Young, predicted the year's sales growth will be around 3%, the high end of the estimates.

Norfolk Southern's CFO Hank Wolfe put it this way: "Traffic volume is up 6.6%, or approximately 72,000 more carloads, third quarter to date, compared with a 1.8% increase in the second quarter of this year. This improvement suggests that we may be seeing the first signs of some general strengthening in the economy." And CSX CEO John Snow said that in spite of the recent downgrade merchandise and automotive revenues are rising, which means both eastern roads are seeing better days ahead.

BNSF is off to the races once again with new and improved intermodal offerings. Monday's announcement highlights additional guaranteed services in 18 lanes. Most are anchored in Chicago and cover the major destinations from Dallas to Seattle. San Bernardino gets four – Alliance, KC, Memphis and Harrisburg via NS. And so on, including a pair from St. Paul to the PNW. Recall BNSF began offering guaranteed intermodal services in May 2000 and has now toted more than 8000 boxes under a 100-percent refund guarantee. That means your money back for each load that does not meet the scheduled availability time for customer pick-up.

"BNSF experienced a large spike in the number of guaranteed loads moving across our network during last year's intermodal peak shipping season, which normally runs from September through November," said Steve Branscum, group vice president, BNSF Consumer Products Marketing. "This expansion is designed to attract a greater share of freight moving over-the-road between Northern California and Texas during this busy season by giving shippers a risk-free transportation alternative." And that, my friends mandates running a scheduled railroad.

Schwab's *Capital Markets* newsletter reports that Kanawha (WV) County "notorious for massive asbestos litigation efforts against corporate defendants" has caught the attention of the U.S. Supreme Court. The note says the cases often involve "large jury awards for non-sick plaintiffs." A clamp-down might stem the tide of asbestos lawsuits "dragging down a range of stocks."

In once such case NS predecessor Norfolk & Western "has appealed a jury decision handing out several million-dollar awards to railroad workers who were not sick with asbestos-related diseases but claimed emotional distress related to 'fear of cancer.'" Wonder how many packs a day of fine Virginia tobacco each of these non-sick persons smokes.

Happy ending department. When I hooked up with my UP hosts Warren Wilson and Dick Peterson for our recent North Platte drive (WIR 8/23), Dick was fretting about getting a carload of honeydews moved from a first-time Express Lane customer in California. The usual stuff you get when somebody's using the railroad for the first time.

I guess it worked, though. CSX this week issued a press release to say that the melons arrived at New York's Hunts Point produce terminal in perfect shape with zero damage or shifting of cases in the car. Rail business to the Hunts Point market is up 60% from levels just three years ago, primarily due to Express Lane. I just thought you'd like to know. Thanks, Richard.

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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.