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Canadian National as usual posted results far from the madding crowd – revenues up 4%, ops income up 6%, eps up 5% excluding non-recurring items. Moreover, productivity enhancements out on the road more than offset continuing high fuel prices thus shaving another 50 BP off the OR, down to 68.1. All commodity groups but automotive were up, and for 2H01 the outlook is for continued growth tied to the economy and strong focus on productivity gains.

Drilling down into the expense side operating expenses were up $33 mm yoy with fuel accounting for $17 mm of it. A year ago fuel was 7.8% of revenues. Had fuel remained at that level in 2Q01 the OR would have been 67.2. Moreover, net car hire was up 7% because of less car hire income as other roads are turning cars faster and material expense was up 21%. What this tells me is that CN has an effective cost control program that will continue to keep the rate of cost increase below the rate of revenue increase.

Speaking of revenue increases, service quality counts. Much of the successful truck conversion rate is from present rail customers. Carload trip compliance in 2Q01 hit 93%, up from 85% in 1Q01 with a 95% OT target the 4Q01 goal. Since service improvement drives asset utilization, there is a major push on car velocity with the result that 97% of car orders meet spec. Penalties help, too. Cars ordered but not loaded in the time allowed will cost extra simply because, as CEO Hunter Hunter Harrison says, “Every empty car is a potential load.” Letting a car sit unused at A while B is short cars is folly. I’m glad CN is doing something about it.

Kansas City Southern did not delight as 2Q01 income from continuing operations fell 47% to $4.7 mm from $8.8 mm yoy. KSC railroad sales remained essentially unchanged yet operating expense rose 3.7% pushing the OR up 4 points to 81 from a comfortable 77 in 2Q00. Quarter-to-quarter increases in fringe benefit costs ($1.0 mm) and car hire costs ($1.5 mm) were the primary causes. Smaller increases for fuel, purchased services, casualties and insurance and other employee expenses were mostly offset by declines in salaries and wages expense and materials and supplies expense.

Equity earnings from Grupo TFM was likewise off yoy, down 61% to $4.9 mm from $8.0 mm. Grupo TFM revenues improved 5.3% to $171.9 mm in the second quarter of 2001, compared to $163.3 mm in the second quarter of 2000. These higher revenues were offset by an approximate 16.8% increase in operating expenses related primarily to salaries and wages, fringe benefits, fuel, car hire and lease costs.

Wisconsin Central posted 2Q01 net income amounting to $16.1 mm before special charges, up 2.5%. North American operating revenues of $93.7 mm were up slightly from last year and operating expense down slightly resulting is a 1.5 point drop in the OR to 72.4. Overseas, net income contribution from English Welsh & Scottish Railway (EWS) was $2.9 mm, off 17% from $3.5 mm yoy excluding one-time charges. Tranzrail (TZR) and ATN also posted declines in equity contributions yoy, dropping total equity contribution from offshore operations to $3.4 mm before special items, off 24%.

Still, WC stock (Nasdaq: WCLX) continues to inch toward the $17.15 price offered up by CN for its fall acquisition of the property. EWS, TZR, and ATN are not part of CN's plans. In its Jan 30 press release announcing the transaction, CN said, "CN expects WCTC to carry out its commitment to sell its minority equity investments in overseas rail ventures as soon as possible." As far as I can tell, nothing's changed.

Florida East Coast Industries, parent of the Florida East Coast Railroad (FEC), reported 1Q01 revenues of $80.3 mm vs. $65.3 mm in 2Q00. Net income dipped to $2.9 mm from $7.0 mm. On a pro forma basis, excluding revenues and expenses related to land sales and the EPIK Communications venture as well as a special Trailer Train dividend, 2Q01 revenues came in at $65.6 mm vs $64.4 mm yoy generating net income of $7.2 mm vs $8.2 mm. The advantage of the pro formas is to show what the on-going businesses look like absent non-recurring or infrequently occurring events.

The FEC Railroad contributed about half the revenue and 40% of the expense. Revenues were off 2.6% yoy however the unremitting focus on operating efficiently pushed the OR down yet another 280 BP to 72.9, one of the lowest in the biz. As President and CEO Bob Anestis noted in the conference call, FEC has no coal, the singular commodity holding up revenues on the rest of the rails in the country.

The largest single commodity on FEC is aggregates, so the 5.5% year-over-year decrease in aggregate loadings accounts for most of the decrease in FEC revenues. Autos continued strong, up 13% yoy. Intermodal loadings were up 2.1% however revenues did not quite keep pace. Traffic levels for all other commodities, primarily carloads of paper and construction materials, showed signs of a slowing economy, off $0.5 mm yoy.

Genesee & Wyoming (GNWR) 2Q01 net income was up a whopping 65% to $5.1 mm from $3.8 mm yoy absent a non-cash charge associated with the depreciation of the Mexican peso. It does include however $2.5 mm equity income from GNWR's recently acquired 50% ownership of the Australian Railroad Group (ARG), which is composed of both the Australia Southern Railroad (ASR) and the assets of the formerly state owned Westrail Freight.

In North America, GWI's 2Q01 revenue increased 4.6% to $44.2 mm yoy and operating income was $6.0 mm, down from $6.4 mm a year ago. The operating ratio was 86.5% in the 2001 quarter compared with 84.8% in the 2000 quarter. The higher operating ratio can be attributed in part to the start-up of GW Logistics and the initial shipments of its "Speedlink" service in the Portland to Los Angeles corridor in conjunction with Union Pacific Railroad.

As with the class 1s, North American coal's continuing strength supported GNWR's 2Q01 results. Aggregates and farm products also provided some balance in the midst of declining revenues in cyclical commodity groups such as metals, cement and forest products. All in all, not a bad story given all the doom and gloom we hear about the economy. As a group the rails have a good story and long positions in a select few may prove quite rewarding.

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