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The Railroad Week in Review 4/13/2002

The long-awaited Alameda Corridor connecting the ports of LA and Long Beach with the rest of the US is finally up and running after 20 years in the making and the expenditure of $2.4 billion. Half its 20-mile length is is in a trench 33 feet deep and three tracks wide spanned by 30 bridges. Trains will now be able to motor along at 40 MPH vs 15 before thanks to grade crossing and curve elimination.

To start, they expect 30-35 trains per 24-hour period though that number could triple in ten years. Maps are posted at www.acta.org. BNSF and UP are the class 1 rail connections and Anacostia's Pacific Harbor Lines connect the red line of the corridor to the ports themselves. See also the PHL map at www.anacostia.com/phl/phl.html.

Sector watching can be a helpful way to gauge future rail traffic potentials. Stock price trends for the Dow Jones US economic sectors YTD tell us where investors think there will be money to be made. The inference for rails is that revenues are the biggest drivers of profits, and increased sales translate into more goods moved to buyer from seller. Leading the pack is Basic Materials (STCC 14, 28), up 9.8% followed by Energy (STCC 29), up 5.8% and Utilities (STCC 11,29). Consumer Goods (intermodal, STCC 20, 28) up 2.9% for cyclicals and 10.8% for non-cyclicals. Only the Industrial sector (STCC 30s) is off, and that by a mere 1.1%.

Turning to AAR carloadings for week 13 (ending Mar 30) are off 2.2% quarter-to-date, 4.2% for the 4-week trend and 4.8% in week 13. Coal does not appear poised for an immediate rebound, however NG prices above $2.50 per mcf favor utility and intermodal takes its lead from the consumer side.

The mild winter helped housing starts even as wood products vendors are stocking up on Canadian lumber in advance of the new tariff due in May. The trend seems to be improving for STCCs 10, 14, 25,26, 28 and some of the 30s. Feeder line operators depending on the carload business would do well to streamline their carload and data interchange processes to eliminate excessive dwell at interchange and eliminate "black holes" in the data stream. Being part of the carload trip plan paradigm requires it.

B*arron's* On-Line for Tuesday suggests that NS stock price may have gotten ahead of itself. That is itself is nothing new – it's a theme we've been picking up for the entire rail group over the past month. What's different this time is that coal is the culprit. The writer cites fund managers who say coal shipments in the East may be slow because of big stockpiles following a warm winter. Also, "We have avoided the eastern rails because they are primarily Appalachian coal haulers, and this past winter [on the East Coast was] a nonevent for heating demand."

Recall that back in January NS Vice Chair and Chief Commercial Officer Ike Prillaman told the assembled analysts that "The year 2001 was a watershed year for our coal business. We made the transition from a historical dependence on export and domestic metallurgical coal to developing opportunities and growing the utility market business." That it stayed relatively warm is temporary. There's always air conditioning and future winters. NS has made a strategic shift and is to be applauded.

RailAmerica (RRA) yoy carloads for March rose 13% and YTD including the ParkSierra and StatesRail acquisitions. Absent them March carloads fell 2% yoy and YTD. Stripping out overseas results, it was much the same story. Up 18% for Mar yoy and 20% YTD, though off 3% for March and 2% YTD on a same-railroad basis, much as the class 1s, above. Australia was down and Chile was up, so overseas was a wash. But…the nice thing about acquisitions and expansions is that downturns here are often offset by upturns there.

Arthur Anderson lost Genesee & Wyoming (GNWR) as client effective April 5. We're not talking chump change here, either. A proxy filed I April says GNWR paid AA a cool $million in auditing and other fees in 2001 and YTD. According to the April 11 SEC Form 8-K there were no "disagreements" between the parties. PricewaterhouseCoopers is the as its new accountant.

Greenbrier (GBX) took a fiscal second quarter loss of $16.8 mm including $19.2 mm in pretax write-downs chiefly for intangible assets, downsizing, and workforce reductions. Last year GBX earned $70,000 in the second quarter. Quarterly revenues were off more than a third to $99 mm yoy. For the fist fiscal six months revenues dipped 42% to $179 mm yoy as GBX posted a $22 mm loss vs. profits of $3 mm a year ago. The two analysts following GBX see an 86-cent loss for the year ending Aug 2002 and a 30-cent profit a year out from that. Moreover, the backlog is shrinking. At 1,900 units it is down 21% since Nov 30.

IBM's Annual Report is hardly what one might call bedtime reading, however there are some *mots* clearly applicable to our favorite industry. Concerning the paradigm shift from Big Iron to services: "We made a big bet that customers needed a partner who could both create technologies and integrate them with each other and the customer's business processes."

Concerning measurement: "We stopped the internal benchmarks and got serious about the best the marketplace has to offer." Concerning growing a business: "Success comes from something very simple – a clear understanding of the customer's needs." Lessons to railroad managers and investors: Businesses are processes that are parts of other businesses' processes. Hardware counts only in so far as it enhances a process.

Errata: There's an error in last week's dividends table. Back in July CSX cut its dividend to a dime a quarter from 30 cents. Thus last year's payout was 80 cents and it'll be 40 cents going forward. Speaking of which, Friday's WSJ carried a short piece on divided trends, noting that the although dividends have steadily been shrinking since the 70s the situation may be stabilizing, in part due to the Enron debacle.

Among the 20 DJ transports, only GATX hiked its Q1 payout. Divs for the group were off 25% to $7.24 from $9.69 a year ago. Cuts by CSX and NS contributed to the group's drop in dividend yield to 1.08% vs. 1.73% for the broader DJIA.

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.

Class I Rail Stocks 2002 Estimated Earnings Plus Dividends
As of 4/5/02

Ticker	Recent Price	2002E eps*	Actual PE	2002 Target**	Nominal PE	Divs	Target+ Divs	Growth Pot'l	YPEG
BNI	$ 28.96	$ 2.10	13.8	$ 31.38	14.94	$ 0.48	$ 31.86	10.0%	1.49
CNI	$ 47.46	$ 3.35	14.2	$ 56.67	16.92	$ 0.50	$ 57.17	20.5%	0.83
CP	$ 20.36	$ 1.40	14.5	$ 25.00	17.86	$ 0.33	$ 25.33	24.4%	0.73
CSX	$ 36.68	$ 2.00	18.3	$ 46.33	23.17	$ 0.40	$ 46.73	27.4%	0.85
KSU	$ 15.66	$ 0.78	20.1	$ 19.00	24.36	$ 0.31	$ 19.31	23.3%	1.05
NSC	$ 22.89	$ 1.20	19.1	$ 27.67	23.06	$ 0.24	$ 27.91	21.9%	1.05
UNP	$ 58.35	$ 4.10	14.2	$ 70.75	17.26	$ 0.80	$ 71.55	22.6%	0.76

* Morgan Stanley fuel-adjusted 4/3/2002
** Yahoo.com