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The Railroad Week in Review 8/30/2002

A friend writes, "Sometimes I think shortlines only criticize and never praise their class 1 partners. Accordingly, every so often I send a summary of new business activity to my class 1 contacts. Here is my most recent." And he goes on to give the details of seven successful new business initiatives resulting in what could well be in excess of 8,000 carloads per year interchanged with the class 1.

In his note my friend names the class 1 folks who have been particularly helpful landing the new business, supplies car management data, touches on operating plan compliance measures, and highlights economic benefits to all parties. His e-mail to the class 1 concludes, "As you will note, these are all relatively large volume projects that will bring significant revenue gains to both of us. I am very happy to report these success stories that reflect the quality of our partnership."

Genesee & Wyoming (GNWR) announced completion of the Utah Railway (UR) acquisition for $54 mm in cash. I always like a cash transaction because it's clean and represents a strong sign of commitment to the new relationship. Speaking of which, GNWR got some nice marks in a research note from Gary Yablon of Credit Suisse First Boston. He writes, "We believe the UR acquisition offers solid accretion to 2003 earnings, $0.10-0.15/share, along with strong incremental free cash flow growth, roughly $0.20/share (30% accretion annually)."

The fact is GNWR at $23 is trading at 12.5 times the 2003 estimate, a slight discounted to the rail group as a whole. Yablon continues, "UR should generate roughly $23 mm of revenue at a 70% operating ratio yielding $7 mm of operating income…this deal is a free cash flow machine." It ought to be. According to my database UR turns 50,000 loads of coal and industrial products on 45 miles of its own track plus more than 300 miles of trackage rights. Running on somebody else's railroad is always cheaper than running on one's own. Maybe that's why GNWR paid 2.3 times sales for it.

Monday's *Schwab Capitol Markets Trader Notes* offers some insights re the Bush administration's Clear Skies Initiative. Recently introduced in Congress, and not likely to come up for debate for a while yet, the plan could present a "best-case scenario" for those with vested interests in coal-fired electricity generation. That's encouraging news for coal-hauling rails, esp NS and BNSF with their new deal to ship PRB coal to NS-served Southern Company plants. The downside is that stricter laws or the EPA's insisting on implementing the Clean Air Act as written would cause the cost of compliance to head decidedly north.

RailAmerica (RRA) expects 3Q02 Freight Australia grain shipments could be off as much as 30% due to the continuing drought in southwest Australia. Consequently the Australian Wheat Board (AWB) is stockpiling last year's above-average crop for potential domestic use rather than release it to the export market. The hit could be something in the neighborhood of $US 4 mm.

Adding insult to injury, RRA's low-margin Canadian bridge traffic has remained weak during the first seven weeks of the third quarter taking another $million US off the table, leaving RRA with anticipated 3Q02 sales of about $114 mm. Looking ahead, it's possible most of the grain stored by the AWB will be released for domestic consumption and subsequently hauled by Freight Australia during the fourth quarter of 2002.

If the stored grain in Australia is released and there is resurgence in Canadian bridge traffic, RailAmerica expects that revenues may be $116 - $118 million in 4Q02. RRA continues to expect total revenue for 2002 to remain at approximately $460 mm, up from $370 mm in 2001, exclusive of any additional acquisitions and in line with prior guidance.

Earl Durden's Rail Management Corp (RMC) will buy the rolling stock of the 96-mile Apalachicola Northern Railroad (ANRR) from the St Joe paper company. Rail Management in turn set up the AN Railway L.L.C. as a subsidiary. The paper company will lease the property to AN Railway while retaining ownership of the right-of-way, track, related facilities and real estate. St Joe wins because its core competence is paper, not railroads. RMC wins because the AN is a nice fit for the Bay Line, one of 14 shortlines in the RMC portfolio. ANRR connects with CSXT at Chatahoochee, FL, less than 50 miles east of the Bay Line connection at Cottondale, FL.

July carload increases for GNWR and RRA were driven by acquisitions, up nicely in North America and down crumbs offshore. Total NA carloads for the month were up 23% at both roads while same RR carloads for July drifted down one percent for GNWR and 4.3% for RRA vs. the AAR's reported 1.4% gain in North American carloads for 3Q through 7/27. For the year 2001 thus far same railroad carloads for GNWR are off six percent while at RailAmerica the shortfall is only 1.5%. The AAR says NA carloads were up 1.2% YTD.

Canadian National officially opens the new intermodal terminal at Taschereau Yard in Montreal Sep 4. Recall that following a two-day visit to CN in Montreal last January I wrote, "That's why you'll see merchandise cars on intermodal trains and auto racks with empty coal hoppers." Now, having intermodal, merchandise and auto cars all in the same place it's going to be much easier to get all the cars heading in the same direction out of town more expeditiously. Before, the intermodals were made up elsewhere so combination blocks were a bit of a chore.

A report of an alarming nature has just crossed my desk. Various rumors have been floated that the demise of the Conrail Shared Asset Operation is imminent as owners NS and CSX seek to put asunder what they had joined together four years ago. That makes no sense and ought to be universally contradicted. The CSAO was created to assure competitive rail service to points previously served only by Conrail Inc., the USRA's answer to the Penn Central debacle.

At this very moment I have before me a series of STB metrics on CSAO performance showing outstanding results in getting costs under control and trains operating the same way every day. Contrary to rumor, shipper satisfaction with Conrail service delivery is running well north of 90%. Moreover, the metrics are so well-defined that failure costs can be driven to specific events and trends. And, IMHO, Conrail local service performance is as good as the best of either parent. Breaking this up would not only be hard to do but downright silly.

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NOTE: For a few photos from last week's UP trip go to www.rblanchard.com/triple-track

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.