The Railroad Week in Review
June 27, 2003
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The STB this week unveiled the latest RCAF (Rail Cost Adjustment Factor) based on 3Q02 and it says costs were up 6.6% yoy. Recall this is the escalator built into the long-term rate agreements that cover nearly a quarter of the revenue base. Take Norfolk Southern, for example. Revenues run $1.6 bn a quarter. An RCAF of 6.6% on $400 mm is $26.4 mm a quarter, $105.6 mm a year.

Then there are fuel surcharges. Norfolk recovered $11 mm in 1Q03; could be $44 mm a year. When all is said and done, it's $150 mm in additional revenue dollars. Revenues were $6.27 mm in 2002; that plus fuel surcharge and RCAF is $6.42 mm, up 2% with no real rate increases.

Montreal Maine & Atlantic has quietly restored the pay cuts imposed when it's largest customer imploded two hours after MMA opened the doors last January. VP Marketing Bill Schauer told me during my visit to Bangor this week the paper mill that sparked the initial troubles will be back to full speed by mid-2004.

What's more, they're building back the business by calling on former customers and working with them to regain *their* former customers. Service design has a key roll, too: it's second morning delivery to the CP in Montreal from a 2 PM pull in Presque Isle. That's 500 miles and three trains with the longest dwell just 15 hours. Track speed is 40 MPH, tops, so they have to hustle. No wonder MMA will be shortly be back at the 60,000 annual carloads they started with before the unpleasantness.

Kansas City Southern got formal written notice that Mexico's Competition Commission has approved without conditions the proposed NAFTA Rail transaction. According to the KCS press release, the Commission found that NAFTA Rail fully complies with Mexico's competition guidelines, and would in no way impede open competition within the transportation sector.

Under the transaction first proposed 4/21/2003, TFM, KCS and Tex Mex will be placed under the common control of a single transportation holding company, NAFTA Rail. In addition to the Competition Commission, NAFTA Rail needs the regulatory approval of Mexico's Foreign Investment Commission; a decision is expected by the end of July. And the common control of KCSR and Tex-Mex under NAFTA Rail will also require the STB's approval. That ruling is expected by mid-October.

Canadian National is making some staffing changes effective July 1. Ed Harris becomes SVP – Ops with responsibility for all of the company's rail operations in Canada and the U.S. Gordon Trafton becomes SVP - United States Region. Keith Creel becomes SVP Western Canada Region. Trafton and Creel will have responsibility for all aspects of CN's business and operations in their respective territories. All will report to Hunter Harrison.

The new Western Canada Region, HQ Edmunton, will combine CN's Prairie and Pacific Divisions, stretching from Northwestern Ontario to the Pacific. The new U.S. Region, HQ Homewood, will absorb the former Midwest and Gulf Divisions, which together include operations in 14 states.

TranzRail Holdings (TRH) continued its soap opera Wednesday as it fleshed out reasons for its latest profit downgrade while the eagerly-awaited detail on a bailout by the New Zealand government is still being hammered out. TranzRail last week lowered its current year profit forecast by 15 % to NZ$40 million ($23 million) and cut its estimate for next year by more than a third to around NZ$48 million.

Prospective suitor Toll Holdings harrumphed that his latest move was "unacceptable" and them doubled its investment to 20% the very next day. To which the government responded by saying its deal makes TRH worth NZ$1.30 a share, 40% more than its Friday close. Meanwhile, Tranz Rail asked shareholders to wait until they saw an independent report and final recommendation from directors, due July 7, before deciding on Toll's offer.

RailAmerica (RRA) CEO Gary Marino told shareholders at Monday's Annual Meeting, "We have a strong record of success and our strategy for future growth is clear. We expect to continue to grow organically and through acquisitions, control costs, manage risk and improve the capital structure through debt reduction." Then on Friday we learned that RRA has acquired its 50th property, this time from UP.

The new kid on RRA's block is the San Luis & Rio Grande Railroad Company, starting operations this Sunday out of Alamosa, Colorado. There are two line segments, both former DRGW lines per my 1953 *Official Guide*, total 154 route miles. RRA estimates $3.5 mm in annual revenue from a commodity list chiefly made up of minerals, potatoes and malt barley.

UP averages about $1,500 per car for these commodities, so at a 20% average allowance we're looking at roughly 12,000 carloads, a tad short of our 100-cars-per-mile rule. But then, the rail line dates back to 1878 when track was laid across the Rocky Mountains at La Veta Pass, reaching an elevation of 9,234 feet, one of the highest points on any operating freight railroad in the United States.

Getting technical. Last week we wrote about rail valuations in terms of PE ratios relative to what one expects from the rail industry. Trouble is, how does one buy and hold when stocks are running sideways? Maybe one doesn't, looking instead for the short-term trends and working them to good advantage: buy strength, sell weakness, and the trend is your friend.

Rail customers and shortline operators benefit from this kind of analysis. There are reasons for strength or weaknesses in a stock and they are generally related to the fundamentals. But there's a catch. PE ratios and stock charts are about what's gone before and the likely longer term. What we're looking for is what's coming soon to a stock chart near you.

Enter moving averages. Take BNSF (ticker BNI) for example. Since the beginning of 2001 it's hovered around $28. However, since the end of March BNI has risen steadily from $25 to Friday's close at $28.41. The short-and long-term moving averages are trending up with the shorter-term line higher, further supporting the rising trend. The highs and lows have both been higher. In other words, investors are betting on better results from BNI near-term. Try it with other RR names – pick an entry point for a "paper" buy and sell when the trend turns against you. And let WIR know how you make out. A free one-year sub to the winner at the end of a month.