The Railroad Week in Review
May 28, 2004
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RailAmerica has agreed to lease 256 miles of former PRR mainline from CSX effective August 1, 2004. This was the main NY-Chicago line out of Crestline, Ohio through to Tolleston, Indiana via Fort Wayne and Valpo. Two branches, including a spur to a quarry outside Bucyrus, Ohio, are included. RRA said they will hire about 30 new heads and run it out of its Central Railroad of Indianapolis (CERA) office in Kokomo. Anticipated volume is 42,000 cars a year. RRA averaged $276 per revenue unit including containers and overhead traffic last year, so annual revenues in the $12 mm range would not be out of order.

This is a perfect example of what CEO Gus Pagonis was talking about in the recent conference call. It's immediately accretive, connects with and enhances existing properties (CERA, IORY), and expands the franchise by offering connections with the western roads via Chicago and the IHB. Major customers on the line are Central Soya, Steel Dynamics, Procter & Gamble, Cargill and National Lime & Stone.

Iowa Interstate (IAIS) derailed a baker's dozen of loaded grain cars while operating over CSX through Bureau, Illinois. According to CSX officials, the derailment was caused by a harmonic rock, where train cars begin rocking from side to side. Evidently it started with two cars and they pulled off another 11 when they left the rails, tearing up about 500 feet of track.

Shortliners ought to know all about harmonic rock, operating as they do over a lot of stick rail with low joints. One, the Eastern Idaho, even carries this special instruction in its Timetable: "At speeds between 13 and 19 MPH watch for excessive rocking action of cars on jointed rail. If a speed of 19 MPH cannot be maintained for 1-1/2 miles then speed must be reduced to 12 MPH." C'mon, guys – pay attention and look back once in a while.

BNSF has made some more changes in Fort Worth. COO Carl Ice tapped Ken Kempker as the new vice president and chief sourcing officer for the railroad. He succeeds Mark Schulze, who becomes general manager of BNSF's Texas Division. Dave Stropes moves to vice president, Corporate Audit Services, succeeding Kempker and reporting to CEO Matt Rose. Congratulations, all.

Greenbrier Industries (NYSE: GBX) runs an August 31 fiscal year and now, half-way through its 2004 fiscal, reports sales up 40% yoy and up 23% from the prior quarter. The new railcar manufacturing backlog in North America and Europe was 10,000 units worth $650 mm and GBX took in orders for another 1400 units in the first month of the current quarter.

On the down side, the continuing industry-wide shortage in the availability of rail castings pushed the production of some 250 units into Q3. GBX is to be credited with stepping to the plate with unconsolidated investments in two rail castings facilities, even though both relationships had less than perfect starts. Writing in *Railway Age*, Railroad Financial Corp's Tony Kruglinski says production lines for coal cars are maxed out, pushing new orders into 2005 production, hi-cube boxcars and grain cars are enjoying a resurgence, and leasing activity is up 25% in some quarters due to rail service snafus.

Commodities Corner. The *Wall Street Journal* reports that Blackstone Group (they of the Transtar rail buyout of the USS rail operations some years back) and First Reserve Corp have teamed up to buy most of the US coal assets of a German holding company for about $1 billion. The new company, American Coal Holdings, will be the fourth largest in the US, after Peabody, Arch and Kennecott Energy.

Also in the WSJ this week, July corn and soybean futures rose on drenching rains in the midwest causing some farmers to replant young crops. In Iowa, yields in both corn and beans could be off ten percent or more. According to the paper, "At a time when record-breaking US crops in corn and soybeans are needed to keep up with world demand, any threat to production could cause big price swings." The challenge to the rails is right sizing the covered hopper fleet six months out.

Bear Stearns' Tom Wadewitz writes in a new report that in their view Canadian National "has a diverse set of potential drivers of both productivity gains and revenue growth over the next few years." He cites expansion of the the innovative IMX intermodal program, the recent railroad acquisitions in British Columbia and new coal opportunities. This last is significant because at CN coal as a percentage of revenues is lowest (5%) of any North American Class I rail.

At a recent investors' conference CN management projected 5% annual revenue growth and 8%-12% EPS growth along with C$700 million in free cash and an aggressive share repurchase program. Tom concludes, "We favor CN not only because of the current strong operating margins, free cash flow and financial returns, but also because we have confidence in management and in the execution of their strategies." I couldn't agree more.

Jack Koraleski deserves a round of applause for his series of letters under the "Customers" tab at www.up.com. As UP's EVP for Marketing and Sales, Jack undoubtedly takes the most customer heat from the current service inconsistencies. However, as any PR student who hasn't been living on another planet knows, going public with the problem and what you're doing about it is the only choice. J&J proved that years ago when it dealt with the Tylenol scare.

In his May 17 letter, the fourth in a series, Jack says, "We are starting to see the benefit of our increased hiring and training, the work stoppage by independent truckers in the West appears to be waning, and we're adding new freight added to the fleet. Still, our Portland and Houston service units continue to struggle with yard congestion and velocity. We are in the process of moving employees from less-busy parts of the Railroad to [these hot spots]."

Wednesday was another mediocre day for the stock market as a whole but a good one for the rails. Every one of the 15 rail carriers and suppliers I track was up on the day. Better yet, ten have broken out above their 50-day moving averages and half of them by a point or more.

Six have dividend yields of 1.5% or better and half of them are in the breakout group. BNSF took the day's honors in the carrier group by being 1.2 points above the SMA-50 yielding 1.8%. GATX (NYSE:GMT) led the suppliers at 1.5 points ahead of the SMA-50 and a yield of a whopping 3.4%.