THE RAILROAD WEEK IN REVIEW

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"We do not currently expect revenues to be higher this year than last, largely due to coal." — Jim Squires, President, Norfolk Southern

Norfolk Southern continued the downbeat nature of the pre-earnings season Monday. Between the press release and the call transcript, one comes away with estimates for first quarter revenues just shy of $2.6 billion, down five percent from last year's $2.7 billion. Operating expense will be roughly $1.9 billion, down three percent, for an operating ratio of 76.8, up 1.6 points vs. a year ago. Earnings per share, says Wick, will come in at $1.00, down 15 percent.

Jim Squires says three factors are behind the revenue decline: fuel surcharge collections dropped $132 million; coal volumes tanked in both export and steam; and RPU dropped in four of the seven business units on negative mix. The good news is that NS sees the economy on the mend, and the outlook for manufacturing remains favorable. Improvements in housing ought to help forest products and construction segments, and intermodal, up five percent in Q1, will continue to maintain that pace. The earnings call is April 29.

CSX headlined its Q1 earnings press release with " double-digit growth in operating income, net earnings and earnings per share." Well, sorta. Total revs of $3.0 billion included $165 million of other income (contract penalties for volume shortfalls less adjustments to revenue reserves), for a gain of half a point over last year's Q1. Without that, freight revenue, including fuel surcharges of $191 million, was $2.9 billion, down 0.3 percent.

Operating expense was $2.2 billion, down four percent thanks to a 40 percent drop in fuel expense; operating income gained 14 percent to $843 million and the OR dropped 331 basis points to 72.2. Without the drastic drop in fuel price, ops expense would have been $2.4 billion, up 4 percent, dropping ops income to $667 million, down 10 percent, and putting the OR at 78 even, up 250 basis points.

Reported net income was $442 million, up 11.1 percent; eps was reported at 45 cents, up 11.4 percent after a 1.6 percent share-count reduction. Per-share earnings without the fuel windfall would have been $0.27, down 33 percent. Operating expense ex-fuel actually increased 4.0 percent, which says there was an eight-percentage point swing between ops with no change in fuel and the reported ops expense.

Total revenue units increased 0.9 percent and the system RPU actually dropped 0.4 percent on decreases in agriculture; food & consumer; chems, including frac sand and crude oil; automotive; metals; and minerals, taking the merch group RPU including auto down 4/10 of a point. RTMs were up 1.2 percent though fuel burn was up 1.4 percent. CSX now reports GTMs excluding locomotives, and on that basis GTMs gained 3.0 percent year-over-year.

On the call, there was a constant thread of increasing prices in the 3-4 percent range, saying continued strong demand and dependable service will support those hikes. It's there, but you gotta dig for it. Freight revenues without fuel surcharges were $2.7 billion vs. $2.6 billion a year ago, up three percent. Here again, if you look at pure freight charges, without FSC and other income, system average RPU was $1,634, up 2.2 percent.

CSX maintains the 2015 goal of an OR in the mid-60s, even on what Chief Commercial Officer Clarence Gooden called "flat at a high level" volumes, by using a balance of expanding volumes from the franchise, pricing, and cost control. Concerning the new 28-hour ops plan, Chief Operating Officer Oscar Munoz said reaction to the idea has been 50-50 positive and negative. Freeing up power is a big part of it, and so far so good. I'm on the fence till we see how it does.

The Q2 commodity outlook is favorable in food & consumer, intermodal, aggregates, and MSW. Not so hot are grains, autos, and energy-related chems. Coal, paper, metals, and ferts prospects more down than up.

Genesee & Wyoming first quarter North American carloads increased 3.2 percent year-over-year with its New Railroad acquisitions more than making up for a decline in same-store vols — without these, total quarterly car-counts would have been down 2.8 percent vs. last year. The commodity mix from the acquisitions fits the GWR North American core business perfectly, dominated as they are by ag products, minerals & stone, lumber, and industrial chems. These four comprise nearly half the commodity carloads GWR sees in North America.

For March, GWR handled 145,507 total revenue units, down 1.0 percent. Commodity carloads, absent overhead traffic and last year's smattering of intermodal boxes, increased 1.1 percent to 139,933 loads. Within the commodity groups that contribute 80 percent of GWR volumes, only coal and metals took significant declines, partially offset by a third more aggregates loads, distributed across the system.

Same store vols skidded 7.2 percent or 10,618 loads after backing out 9,165 New Railroad carloads. However, I prefer to look at commodity carloads all-in, excluding coal and overhead to get at reasonable Class II and III railroad comps. Here's why: You have no control over overhead and are totally dependent on the kindness of strangers for every car. And coal is big on only a handful of shortline and regional railroad names. The remaining commodity groups posted a healthy 6.7 percent gain for GWR in March. If only more names replicated this performance.

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