RAILROAD WEEK IN REVIEW

December 18, 2020

"A fair amount of ink has been spilled lately on the status of the Huron Central Railway. While it is common knowledge that the railway faces an uncertain future and is seeking financial assistance from the government to share the cost of rehabilitating the line so it can be there to support our region's economic recovery, what may not be as clear is the degree to which HCRY has already contributed to the North's transportation solution." — Daryl Duquette, General Manager, November 18

"Intermodal traffic will grow by five percent in 2021 but carload traffic will continue to struggle to recover from the pandemic in the new year. The growth will come from consumer demand and the need to replenish retail inventories, which remain at unusually low levels." — Todd Tranausky, VP Rail & Intermodal, FTR Transportation Intelligence

"COVID-19 forced a year of 'creative destruction,'wherein businesses rushed to challenge conventional models and adapt to new norms. In many cases, such as with e-commerce and tele-health, a multi-year march toward adoption of same was dramatically accelerated by a stay-at-home and work-from-home environment." — Cowen & Co. Year-end report

"This market is so overbought, overextended and overvalued, it looks like a combination of late 1999 and late 2018." — Breakfast with Dave (Rosenberg), December 15

Genesee & Wyoming is shutting down its Huron Central Railway in Canada in June. GWR has said three times it had planned to shut down HCRY but now has extended the deadline pending the outcome of upcoming talks with federal and provincial governments about the C$40 million-plus subsidy needed for maintenance and upgrades. Previous closure plans had been reversed for the June 2009 shutdown above, again in the spring of 2010, and most recently in early 2018.

In June 2009, when GWR first proposed shutting down the 173-mile line, it was doing 16,000 cars a year, mostly steel and timber. My spreadsheets show 23,000 at the start, making 2009 down 30 percent — pretty thin gruel even then per my Rule of 100, which calls for 17,300 cars at least on a railroad with this many miles. Since then the traffic base has fallen another 25 percent to 12,000 cars a year, or fewer than 70 cars a mile.

Let's run some numbers using the cost models I've developed over the years. Say they get $300 per car or $3.6 million a year. Short lines spend abut a third of their revenue on comp and benefits — call it a million a year. Fuel use is about a fifth of revenue, $720,000. Car hire is another 20 percent, again $720,000, so already we're up to $2.4 million.

The Rule of 100 assumes track maintenance at $6-7,000 per mile for T&S etc — no bridges, crossings, weed killer, etc. It also assumes we're starting with FRA Class 2 track good for 25 mph (Canadian standards are about the same as the FRA's). Keeping it up to spec at the above rate runs a cool $1.2 million. That gives us an operating ratio right at 100 and we haven't even touched depreciation, equipment maintenance, or taxes.

The *Sault Ste Marie News* reported last week that the railroad, which runs between the Sault and Sudbury, had said in September that it needs needs C$44 million from the federal and Ontario governments to upgrade the line, originally setting the December 18 date as the last day of business for the line if that financial aid doesn't come through. Stay tuned.

Morgan Stanley railroad analyst Ravi Shanker has downgraded CSX to under-weight from equal-weight based on the continuing decline in coal tonnage. "The downgrade reflects valuation more than anything – our view on fundamentals has not materially changed," the firm said in a note to clients. Morgan Stanley did, however, raise its target on the stock to $60 from $52, even though CSX has stayed in the $90 range before and after the downgrade.

As for coal, CSX has been saying for several years that the goal is to replace coal losses with gains elsewhere. Seems to be working. In the 2016 third quarter coal revenue was 17.2 percent of the total $2.5 billion top line. Fast forward to the third quarter just past and see coal revenue at just 12.5 percent of the reported $2.6 billion in freight revenue.

To be sure, the top line hasn't moved much, but that's another story. My point is CSX has taken the coal portion of railroad revenue down 470 basis pointseven though total revenue has barely budged. I remember Hunter saying when he first came on board that he wasn't putting another nickel into building the coal franchise, telling the *Financial Times* in 2017, "Fossil fuels are dead." He said he'd keep service levels up, but when it's gone, it's gone. That time is coming and CSX needs to be congratulated on its progress replacing coal with not-coal.

Amazon boxes ride the rails before they are stuffed with goods. Watco's attractive *Dispatch* newsletter for December reports that their Eastern Idaho Railroad delivers rolls of paperboard to the plant that produces Amazon boxes in Burley, Idaho. Once the boxes are completed, they are palletized and trucked to the Watco terminal in Burley, just a couple of miles away. There they are staged for final delivery by boxcar on demand

The transload facility generally maintains a month's worth of inventory; that doubles for the Holiday Peak. Although the boxes are non-perishable, the customer requires that they be sent out in first-in, first-out sequence. The receiving team at the outbound terminal sees to that by sequencing the pallets as they come in from the producing facility.

The size of the pallets is such that the transload facility doors must be able to accommodate pallets stacked 10 feet high, though the doors were built with clearances of eight feet. Watco wasted no time seeing to that the doors could accommodate the larger pallets. But it didn't happen overnight. The Eastern Idaho had cemented its relationship with the customer when they first started taking the inbound roll stock. Fixing the door clearance for the outbounds was just another step in solidifying the customer relationship.

Canadian National has selected Alabama Export Railroad, a subsidiary of the Mississippi Export Railroad, and Ray-Mont Logistics for launching a new, innovative, high-tech logistics park in Mobile, Alabama. Expected to open late next year, the first phase of the project will be a facility for bagging and containerizing plastic pellets. This terminal will include two bagging lines with an annual capacity of 25,000 TEUs.

Strategically located in Mobile, the facility will provide customers with extensive export capacity to access Asian, Latin American, and European markets without warehousing costs or requiring double-handling. This collaboration will offer customers an attractive supply chain option for getting their products to global markets through the Port of Mobile.

Says Kate Luce, President and CEO of both AER and MSER, "We are pleased to have been selected for supporting this new resin bagging and export facility in Mobile. Along with our core partners Canadian National and Ray-Mont Logistics, we believe this project represents the first step toward the establishment of a multi-commodity logistics hub, which will serve producers and global markets for decades to come. Our interest in pursuing this intermodal opportunity is due in part to the continued federal and state investments at the Alabama Port of Mobile for additional container capacity."

Yet another example of a short line doing the heavy lifting with a customer to create new business for a connecting Class I. Kudos to all.

This will be that last WIR for 2020. Christmas is next Friday and New Year's Day is the Friday after that. January 8 will usher in 2021, a year that promises to be better than 2020. Stay safe out there and thanks for your continuing support.