RAILROAD WEEK IN REVIEW

August 9, 2024

"Freight revenues include both revenue for transportation services and fuel surcharges. BNSF has two standard fuel surcharge programs – percent of revenue and mileage-based. In addition, in certain commodities, fuel surcharge is calculated using a fuel price from a time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge may differ significantly." — BNSF 10-Q, June 30, 2024

"Overall, our fluidity metrics have remained pretty consistent. Our train speed has improved, but we have seen some variability in dwell. Effectively, our dwell metric reflects a combination of our team focusing on keeping cost tightly in-line while maintaining the level of service our customers require." — Mike Cory, CSX Chief Operating Officer, August 5, 2024

"Real Vision underscores the importance of maintaining a long-term investment horizon, particularly amid the ongoing macroeconomic volatility. We advise against fear-driven selling and emphasize the need for patience and strategic accumulation during market spasms. RV remains optimistic about the macroeconomic framework, projecting substantial market recoveries driven by global liquidity injections and easing financial conditions." — Raoul Pal, CEO, Real Vision, August 5, 2024

BNSF reported $5.6 billion in freight revenues for 2Q2024, up just 40 basis points, on 2.3 million revenue units, up 4.2 percent. "Consumer Products" (auto and intermodal) dominate the revenue unit count at 57 percent of the total; revenue increased 12 percent to $2.1 billion on 1.3 million revenue units, up 15 percent. Merchandise carloads (industrial plus ag including ferts) numbered 709,000, up 3.6 percent, generating $2.9 billion of revenue, up 4.6 percent. Merch RPU increased a point to $4,039.

Per the BNSF "Performance Review," ag benefitted from higher grain exports, renewable fuels, and fertilizer shipments, partially offset by lower domestic grain volumes. Industrial saw lower numbers in aggregates, taconite, minerals, and waste shipments, partially offset by higher volumes in petroleum products and plastics. Coal revenue, not surprisingly, dropped by a third and carloads were down 29 percent.

With revenue up a mere 20 bips, BNSF did well to take 40 bips off quarterly ops expense, generating $1.8 billion in operating income, up a point and a half. Below the line, net income gained four percent to $1.8 billion. The $473,000 interest income helped offset a bit of the $395 million easement judgment with the Swinomish Tribe, which the the railroad has appealed.

BNSF also had a “merger” to deal with. In March 2023 the STB okayed Montana Rail Link (MRL) discontinuance of service over the former Northern Pacific which it had leased from BNSF, which has resumed providing service over the line starting last April. BNSF has included operating results over that line segment since then.

And so, even with fuel surcharge collections off 19 percent, dropping reported RPU by 4.5 percent, “owner earnings” increased nearly four percent to $2.56 million. Retained earnings for the six months increased two points to $43.5 million and total retained earnings were up six percent since December. See what no share repos can do?

BNSF is relatively small potatoes in the broader Berkshire scheme of things, generating only $5.8 billion in Q2 revenue against Berkshire’s $93.6 billion in revenue from what it calls “business operations.” That includes Geico and the other insurances, utilities, manufacturing including Marmon and Lubrizol, and various service and retailing operations (See’s Candy, Nebraska Furniture Mart, Dairy Queen , etc.).

Marmon is of particular interest because it owns the Union Tank Car brand, competing with the likes of Trinity and GATX. According to the most recent Berkshire 10-Q, Marmon’s revenue was $3.2 billion in the second quarter, down 1.5 percent vs 2Q2023. Says Berkshire, “Marmon’s Transportation Products group experienced significant revenue declines due to reduced volumes, following very strong demand in recent years, partly offset by increased railcar repair prices and volumes.”

BNSF has moved 157,000 carloads of petroleum and refined products YTD, up 11 percent, and comprising three per percent of total BNSF revenue units. I would like to think the majority of those cars bore the UTLX mark.

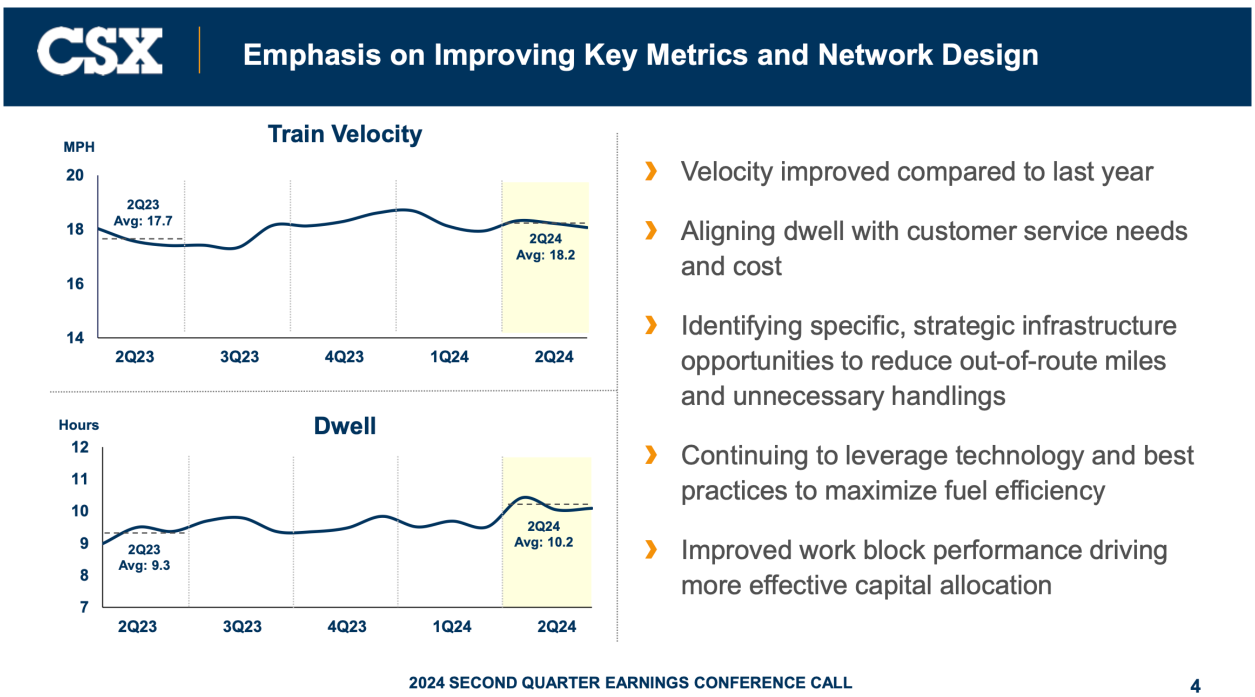
CSX in 2Q2024 posted freight revenues of $3.4 billion, up 1.2 percent, on 1.6 million revenue units, up 2.1 percent. Merchandise carloads including automotive gained a mere point while revenue jumped four percent on particular strength in chemicals (crude oil, refinery products, plastics) and minerals (aggregates and cement). Metals were off thanks to lower scrap and steel tonnage.

Total coal tonnage decreased three percent vs 2Q2023 as the 8.2 percent gain in export coal couldn’t offset the 13.6 percent slippage in utility coal. CSX was able to minimize the effect of the Baltimore bridge collapse by sending out more ocean-bound met coal through other locations. Year-to-date system RPU was off 1.4 percent due to 16 percent lower FSC revenue.

Operating expense increased 90 basis points against flat total revs. Operating income slipped a point to $1.4 billion; still, the OR was a respectable 60.9, up half a percent since 2Q2023. Net income dipped 2.1 percent to $964 million; EPS was 49 cents, unchanged, on share count down four percent. Loco fuel expense was down 5.7 percent, fuel burn was 2.3 percent less on GTMs up a point; gallons per KGTM improved 3.4 percent to 0.97, achieving the Holy Grail of one gallon per thousand GTMs.

Said CEO Joe Hinrichs on the call, “Operationally, we are developing initiatives to take an excellent scheduled railroading model and make it safer, leaner and more cost effective while providing the consistency and flexibility that our growing customer base demands. And commercially, our sales and marketing organization is creating new, more targeted methods for us to go to market, create partnerships and use our leading value proposition to convert customers onto CSX rail.”

The operating emphasis on improving key metrics and network design is paying off:



The main message here is that CSX was able to hold its own in a down market and present a positive path forward. Well done.