The Blanchard Company
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The Railroad Week in Review 8/16/2002

Last week WIR noted that the winter wheat crop forecast from the Dept of Agriculture is the smallest in 30 years. Now come warnings on corn and soybeans, the number one and two crops respectively. The most recent USDA report says prices will be higher this year and next. Stock market watchers say higher corn prices could bode well for fertilizer producers while dampening returns for meat processors like Tyson and ConAgra.

Of all the rails, CSX is probably best positioned with strong phosphate fertilizer business plus its southeast broiler and swine feed business. Rails with high percentages of export grain may see some decline in volumes as we saw in Canadian grain earlier this year. Shortline and regional railroads will have to be very wary of crop price spreads and relative freight rate between smaller branch line customers and load centers served by the class 1s direct.

Norfolk Southern Railway and Union Pacific have launched a new truck-competitive intermodal service between eastern cities and Mexico via the Laredo gateway. NS originates trains in Harrisburg, Atlanta, Charlotte, Jax and Miami and run though to the UP at Memphis. Laredo, Texas, and to Mexico. UP also has a pick at the Marion ramp in Arkansas. According to the press release this is the first dedicated train service to Mexico for eastern shippers.

Three service levels are offered. The “Trans-Border Express” service provides all-rail, seamless service to Mexico City with dock-to-dock Internet shipment tracking and customs-clearing in the interior of Mexico, rather than at the Laredo border. “Passport” service shipments are grounded at the UP ramp in Laredo where the railroad arranges the motor carrier movement beyond. “Conventional” is rail to Laredo and do-it-yourself beyond.

BNSF Logistics LLC opened its doors for business this week. The operation is a wholly-owned subsidiary of BNSF offering customers a suite of logistics products and services, including network analysis, design and optimization, and a variety of execution services, including multi-modal transportation management. To set up this business BNSF acquired Clicklogistics, a privately-held, third-party logistics and technology company formed in 1997 with headquarters in Boston. Eric Wolfe, formerly the chief operating officer of Clicklogistics, has been appointed vice president, BNSF Logistics.

Amtrak has annulled the new Acela Express trains for the time being, or at least until they can figure out why certain power truck components are failing. David Gunn is not amused and has said he may not take delivery of the additional trainsets on order from Bombardier. Taking these trains out of service puts an extra load on the existing Amfleet trains, which were supposed to get extra cars freed up by the new trains.

So far that hasn’t happened and the conventional trains keep getting shorter and later. Me? I take Septa and NJ Transit. It takes a little longer but is reliable and costs about a third of the Amtrak ride. And now, with US Airways in bankruptcy and AA revamping its hub system for longer connection times, Hertz looks even better for trips of 500 miles or so. Good thing for the freight rails as automotive products account for 10-20% of carload billings.

Providence and Worcester lost seven cents a share again in 2Q02, a repeat of 1Q02. The good news is they made a quarterly operating profit before an Amtrak mileage charge that they took above the line. The 2Q02 operating ratio is 91.7, improved from 94.7 yoy before a $210,000 Amtrak siding charge but still a high for an operation this size. The OR for the half remains above 100 yoy. The 10-Q says “Most of the Company's operating expenses are of a relatively fixed nature and do not increase or decrease proportionately with variations in operating revenues.” That’s a shame because it shouldn’t really cost P&W more than $4 mm to make $6 mm in revs.

But they’re heading the right way. Commodity carload revenues were up for the quarter and half while container revenues fell. Given the P&W’s proximity to CSX and CN ramps it’s hard to see why they have any box business at all. Better they focus on building the truck-rail transload and carload-direct trade. Conventional carloads were up 16% for the quarter and 11% for the half while average RPC took a 5% hit, this time due to increased Amtrak mileage charges awarded in arbitration (don’t they see this stuff coming?). A reformatted income statement is attached.

On this the eve of the annual Union Pacific shortline meeting it’s fitting to add a word on UP’s unique position of strength in the merchandise carload business. For the quarter ending 6/30/2002 UP generated $1.6 bn in carload sales, 60% more than its arch competitor, BNSF with $1.0 bn. YTD carload revenues hit $3.1 bn and were 60% of the total railroad revenue for the half. Against AAR commodity carloadings excluding coal and intermodal rose 1.4% for 2Q02.

Commodity Carload Comps

Quarter ending 6/30/2002

The Major Class 1 Railroads

Revenue and income in $millions

Metric	BNSF	CN	CP	CSX	NS	UP
Railroad revs (1)	$ 2,207	$ 1,551	$ 873	$ 1,834	$ 1,593	$ 2,822
Carload revs (2)	$ 1,002	$ 1,157	$ 536	$ 1,124	$ 948	$ 1,615
Pct carload	45.4%	74.6%	61.3%	61.3%	59.5%	57.2%
Mdse Carloads (000)	631	NOTE	275	865	723	1,036
Rev/CL	$ 1,588	NOTE	$ 1,948	1,299	1,310	$ 1,559
Operating Income	$ 405	$ 490	$ 219	$ 321	$ 322	$ 583
Other Income (3)	$ 10	$ 23	$ 63	$ 4	$ 2	$ 35
Net Income (3)	$ 194	$ 280	$ 169	$ 135	$ 119	$ 304
RR Operating Ratio	81.6%	68.4%	76.3%	84.0%	79.8%	79.3%
Net Margin (3)	8.8%	18.1%	19.3%	7.4%	7.5%	10.8%

(1) CN, CP in $Canadian

(2) Excludes coal, intermodal

(3) Corporate

NOTE: Carload information not provided

Roy Blanchard

Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.

PWRR Revenue analysis **8/14/02 12:00**

Periods ending June 30

	Second Quarter			Year-to-Date		
	2002	**2001**	**Pct Chg**	**2002**	**2001**	**Pct Chg**
Commodity Carload Revenue ($000)						
Total	$ 5,097	$ 4,641	10%	$ 9,088	$ 8,616	5%
Revenue Carloads						
Total	9,245.0	8,003.0	16%	14,532.0	13,106.0	11%
Avg. Revenue per Carload						
Total	$ 551	$ 580	-5%	$ 625	$ 657	-5%
Total Railroad Revenue						
Carload	$ 5,097	$ 4,641	10%	$ 9,088	$ 8,616	5%
Intermodal	$ 630	$ 759	-17%	$ 1,234	$ 1,485	-17%
non-freight	$ 107	$ 217	-51%	$ 346	$ 483	-28%
Other	$ 172	$ 118	46%	$ 247	$ 193	28%
Total	$ 6,006	$ 5,735	5%	$ 10,915	$ 10,777	1%
Pct carload	84.9%	80.9%		83.3%	79.9%	
PWRR Corporate Income Statement						
Revenues	$ 6,006.0	$ 5,735.0	5%	$ 10,915.0	$ 10,777.0	1%
Expenses	$ 5,719.0	$ 5,472.0	5%	$ 11,437.0	$ 10,998.0	4%
Ops Income	$ 287.0	$ 263.0	9%	$ (522.0)	$ (221.0)	136%
Operating Ratio	95.2%	95.4%		104.8%	102.1%	
Other income	$ 165.0	$ 194.0	-15%	$ 496.0	$ 397.0	25%
Amtrak fees	$ (940.0)			$ (940.0)		
Income tax	$ 170.0	$ (156.0)	-209%	$ 335.0	$ (66.0)	508%
Net Income	$ (317.0)	$ 302.0	-205%	$ (630.0)	$ 111.0	-667%
Dil. Shares	4,427.0	4,467.0	-1%	4,419.0	4,444.0	-1%
Dil. EPS	$ (0.07)	$ 0.07	-206%	$ (0.14)	$ 0.02	-671%