

The Railroad Week in Review
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Three days does not much of a week make. Tuesday marked the start of the much-ballyhooed Second Half, when everything is spozed to be coming up roses once again. Maybe so, but there are those who say we've been down this path before and haven't had much to write home about.

In some ways railroads can be seen as Leading Indicators. Sales expectations increase, orders expand, and there are more goods on the move. Table 1 shows the 3Q03 and FY 2003 earnings estimates vs. performance a year ago. To be sure, these are *earnings* estimates, not *revenue* estimates and take in the effects of not only direct operating income but also "below-the-line" items such as taxes, interest payments, and non-recurring items. However the biggest driver of earnings is revenue, and so as estimates go revenue can be expected to do the same.

Nearly everybody expects double-digit earnings growth in 3Q03, not surprising because it was a year ago that the anticipated earnings boost was not there. But look at the full-year estimates. Mostly single digits or worse against last year's depressed earnings. In other words, it's doubtful 2H02 will set any records. And as a rule as the class 1s go so go the shortlines.

For example, RRA is more closely tied to UP than any other class 1. For 2002 some 28% of total class 1 interchange was with UP; NS was last among the Big Six with only 6%. The flip side is that for both the quarter and year the RRA estimate change is better than the UP's. Does this mean RRA is adding customers faster than UP? Anecdotal evidence comparing yoy car count increases on shortlines and class 1s seems to say they are. But nobody wins when the leading indicators aren't particularly encouraging.

Intermodal continues to grab headlines. CN and CSX Intermodal have teamed up to build a state-of-the-art railroad-truck intermodal facility to be built in the Frank C. Pidgeon Industrial Park in southwest Memphis just south of President's Island. According to the joint press release, private rail investment will total US\$25 million, creating a 155-acre intermodal terminal with an annual capacity of 200,000 lifts. The City of Memphis and Shelby County jointly own the site, which offers more than 3,000 acres for industrial development and expansion.

To put this in perspective, that's about 550 lifts a day, seven days a week. The industry average for intermodal trains is about 1.7 boxes per platform, given the mix of sizes and lengths, and whether there are any trailers. Call it 170 boxes per train. So 550 lifts a day is three-plus trains. CSX averaged \$574 per intermodal unit in 1Q03; CN averaged C\$891 (US\$670). With a 50-50 split we're talking \$146 mm in revenue. What will it cost to build this sucker? What's the IRR?

It's interesting that the Tennessee Department of Transportation has committed to initiate the necessary roadway work to improve access to the new terminal. State discretionary funds will be used to modify the interchange of Interstate 55 and Mallory Road and to make improvements over Riverport Road, which is the three-mile-long corridor between the new terminal and I-55. It ain't going to be cheap. One must wonder how much of this is "new business" and how much is being diverted from existing facilities because there isn't room. Frank Harder, please take note.

BNSF has offered early retirement packages to almost half the 1,100 souls still toiling in Topeka. Choices are either a \$90,000 check and no benefits or \$2,500 a month for three years and continuing benefits. The company says the buyouts are the result of technological advancements

that reduce the personnel needs in crew-calling, accounting, time-keeping and shop work. Two years ago there were 2,100 BNSF employees based in Topeka.

CSX will launch another track maintenance blitz this week between Elkhorn City KY and Laurens SC. This “engineering jamboree,” as CSX calls it, will enable CSXT to complete in nine days what would take two months if train operations were not rerouted. This year’s Jamboree is the largest of several such events the railroad has held in the past four years. The line segment typically handles more than 25 trains per day. CSXT began rerouting train traffic off the line Saturday, and by Wednesday, July 9, train operations will be back to normal.

In a thoughtful P.S., CSX adds that residents throughout the region should remain alert to moving work equipment and ballast trains. Says the railroad, “It is critical for residents to continue to be alert to moving rail traffic, particularly at grade crossings. Motorists and pedestrians should obey crossing gates and signals, and stop, look and listen before crossing onto railroad property.”

“**L**istening to America” is a comprehensive report on public transportation investment prepared under the direction of the American Association of State Highway and Transportation Officials (AASHTO). It comments on the organization’s regional forums on the reauthorization of TEA-21, held in Baltimore, Chicago, San Antonio and Nashville last fall. It is now available at www.aashto.org as a PDF.

Five broad themes emerged: the economy needs a shot in the arm; TEA-21 works; investment in transportation system investments ensures economic recovery and growth; individual transportation modes are interdependent; and flexibility and partnerships are the key to tapping the full potential of TEA-21.

The paper goes on to develop each, with quotes from state and industry officials scattered throughout for emphasis. “Freight volumes will increase by 60-80% over the next 20 years; productivity is increasingly challenged by congestion and choke points” (NY DOT). “If we don’t make the investments we need, our transportation system will shift from being a great facilitator of economic growth to a hindrance” (BNSF). And so on. Get it, read it and ponder.

Help Wanted: Shortlines for grocery products (STCC 20) distribution network. Need direct access to at least two class 1s with daily interchanges. Must be able to switch on-line food-grade distribution center (temperature control a plus) twice a day. Active, measurable ISAs with class 1s and real time event reporting to Train II required. Able to handle 286 and high-cube cars. Minimum FRA class 2 track. To be considered must be willing to share financials and five-year safety record. Million-dollar revenue potential.

The current issue of *Fortune Small Business*, a bi-monthly magazine sent to American Express business card members, says supply-chain management and the real-time enterprise are “inexorably” linked. Specifically, “Being able to stitch together new things and legacy things” will be essential. Thus the quals requested above. I’m looking for origin roads in the west and destination roads in the east. It’s all “new business” as defined by the RIA. Any takers?

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Table 1. Forward Earnings Estimates

Tick	3Q03	3Q02	change	FY 2003	FY2002	Change	Analysts
BNI	\$ 0.60	\$ 0.51	17.6%	\$ 2.13	\$ 2.00	6.5%	13
CNI	\$ 0.95	\$ 0.84	13.1%	\$ 3.57	\$ 3.32	7.5%	19
CP	\$ 0.47	\$ 0.44	6.8%	\$ 1.60	\$ 1.64	-2.4%	15
CSX	\$ 0.67	\$ 0.60	11.7%	\$ 2.20	\$ 2.16	1.9%	14
GWR	\$ 0.46	\$ 0.40	15.0%	\$ 1.62	\$ 1.53	5.9%	5
KSU	\$ 0.22	\$ 0.17	29.4%	\$ 0.74	\$ 0.89	-16.9%	7
NSC	\$ 0.39	\$ 0.32	21.9%	\$ 1.36	\$ 1.18	15.3%	13
RRA	\$ 0.25	\$ 0.22	13.6%	\$ 0.79	\$ 0.75	5.3%	3
UNP	\$ 1.29	\$ 1.19	8.4%	\$ 4.20	\$ 4.30	-2.3%	14

Source: First Call on yahoo.com