THE RAILROAD WEEK IN REVIEW

March 15, 2013

"Rails provide the flexibility of being able to deliver the crude extracted from the shale to different locations." -- Benjamin Hartford, RW Baird

Genesee & Wyoming Feb Revenue Units were off 0.8 percent to 122,427, year-over-year on a pro forma basis, including RailAmerica Feb 2012 carloads as if the two companies had been operating as one at that time. Moreover, GWR has amended RA's 2012 carload information to conform with GWR's reporting methodology. I am reporting North America only so as to provide a mirror on the shortline business as represented by GWR's 108 NA railroad names. Totals include revenue units for lines acquired by GWR and RA in the past 12 months.

Significant carload deltas include Agricultural Products, off 11.0 percent, on shipments in the Canada Region, while Metals dropped 13.2 percent across the Southern, Rail Link and Ohio Valley regions. Petroleum Products were up 37.4 percent thanks to crude oil and LPG across the Pacific, Mountain West and Canada Regions. Finally, Coal & Coke *increased* 7.9 percent carloads primarily across the Midwest, Mountain West and Northeast Regions, partially offset by a decline in the Central Region.

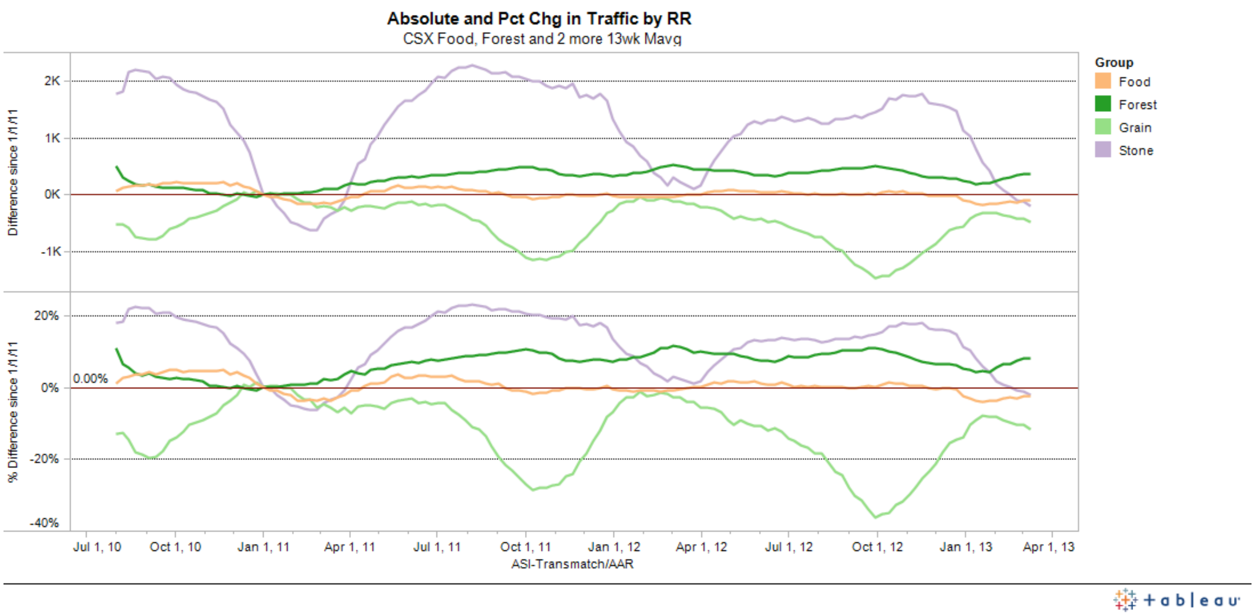
Feb's results were off 11.6 percent sequentially from Jan, 2012, while quarter-to-date GWR has handled 260,860 revenue units, up 3.6 percent year-over-year. Eighty percent of the business is in four commodities: Coal & Coke, 19.6 percent; Ag Products, 11.5 percent; metals, 10.7 percent; chems including ferts and plastics, 10.3 percent. Petroleum Products, while the biggest gainer, is but 7.2 percent of vols, though up from the pro forma combined 5.1 percent a year ago.

Three CSX Short Line Workshop presentations were particular standouts. Eric Johnson, whom I've known for perhaps 20 years, did a stand-up job on fertilizers. Ken Kirkpatrick showed how what had been called Emerging Markets in the CSX financials is being morphed into Minerals and Waste. And Tom Dahlberg did the honors for the Forest Products Group.

The common threads among all presenters were a focus on trends creating new carload volumes, maps of origins and destinations so short lines could see possible fits with CSX, and specific short line success stories. For example, Johnson told why changes in global nutrition needs are creating new fertilizer markets, how CSX is capitalizing on the changes and how short lines can profit from both. Kirkpatrick showed how CSX aggregate origins lie astride the old SAL and B&O; how salt sits atop former NYC and Michigan Central properties, and how cement originates in the four corners of the system, creating myriad short line opportunities.

Dahlberg probably had the widest range of products to cover, from newsprint to wood pellets for fuel to dimensional lumber, wood panel and roofing shingles. He showed how short lines can capitalize on increased housing starts (dimensional, panel, shingles), where the STCC 26 growth lies (packaging) and how to play the current trucking turmoil.

As you can see below, stone (in the minerals group) and grain (strictly speaking, ag products but having a big effect on fertilizer demand) remain in their respective funks whereas forest (STCC 24, mainly) and food (mostly STCC 20, all of which requires nourishment in the field) are beginning to head in a more positive direction. All three of these presenters drilled down into specific shortline opportunities and involved the short lines in their presentations. That's a positive in and of itself. I will be watching how other Class Is compare to the standards set here.



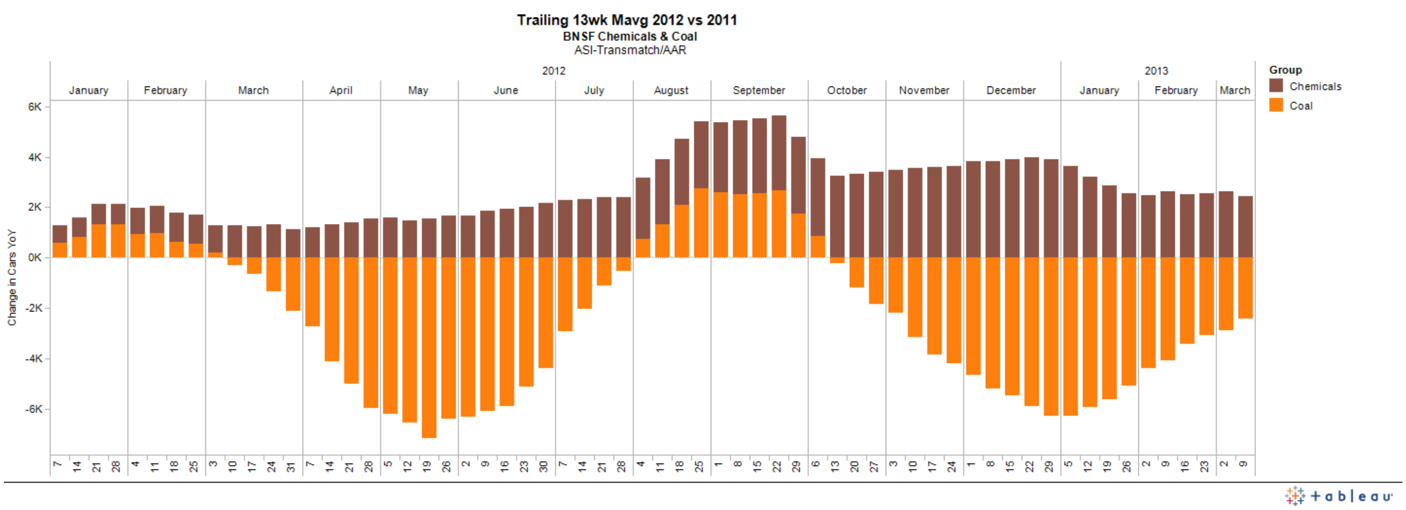
Crude-by-rail is very much top of mind these days. On Wednesday Bloomberg ran a story ("Oil Riding the Rails Creates Jobs") touting the railroads as "the rolling alternative, keeping oil flowing from the Bakken in North Dakota to refineries along the Texas Gulf Coast, as the White House deliberates on the fate" of the Keystone XL pipeline, among others. Bloomberg continues, "Crude oil shipments by rail jumped 256 percent in 2012 to a record 233,811 carloads, or 167 million barrels" according to the AAR, roughly seven percent of US oil production vs. two percent in 2011.

The jobs angle comes where Bloomberg says, "Rail transportation payrolls have climbed by 9.1 percent, a pace more than twice as fast as total job growth, since the end of 2009." And, "Earnings at S&P railroads rose about three times as much as the S&P itself. Profits for companies in the rail index rose 16 percent in 2012 compared with 5.2 percent for the S&P 500."

Perhaps RW Baird rail analyst Benjamin Hartford (a regular WIR correspondent) sums up the rail advantage best, saying, “Rails provide the flexibility of being able to deliver the crude extracted from the shale to different locations. People are focusing on the Keystone pipeline and its development but there’s still receptivity to using rail.”

The STB’s Quarterly Traffic Trends report shows BNSF the clear leader in 4Q2012 with 60,622 revenue units (up from 258 carloads in 1Q2008), worth a cool $214 million in revenue. UP takes second place in the 4Q2012 sweepstakes at 41,296 units, CP is third with 13,682 cars, then NS at 9,038 cars. CSX, KCS and CN bring up the markers at 4,077 cars, 2,861 cars, and 2,350 cars.

We also hear a lot of buzz about how crude oil is making up for what’s been lost in coal. The brown in the chart is all chemicals. Transmatch doesn’t break out crude, though BNSF’s own carload data suggests petroleum represents half the entire chemicals group revenue units. The upward slope of the quarter-to-quarter crude oil curve is roughly 60 degrees, suggesting that petroleum will become an even bigger piece of chemicals carloads, shrinking coal’s share of total revenue units still further. And, best of all, crude-by-rail, like coal, is in point-to-point unit trains of leased equipment.



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