THE RAILROAD WEEK IN REVIEW

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"We have enough capacity, and we're not going to be pricing business away from our railroads." — Michael Miller, GWR Chief Commercial Officer for North America

Genesee & Wyoming leads the industry in safety. Once again, the GWR corporate culture of top-down safety awareness has paid off, yielding a second-quarter zero-point-five personal-injury ratio. The Class I average through April was a respectable 1.2 with CSX, BNSF and UP all ties at one-even; NS and KCS did less well. Most worrisome, however, are shortline and regional scores, FRA Groups 2 and 3, both north of three injuries per 200,000 hours worked.

[The FRA classifies non-Class I roads by hours logged: Group 2, 400,000 employee-hours per year and up; Group 3, under 400,000 hours. In Group 2 are such names as Pan Am Railways, Florida East Coast, Buffalo & Pittsburgh. Group 3 roads include the Fort Worth & Western, Iowa Northern, Eastern Washington Gateway. You can get accident details by road name in each group at safetydata.fra.com.]

On the call, CEO Jack Hellman said, "We're making great strides in our performance. However, we continue to see opportunities for improvement." Clearly. The top four FRA reportable injury categories January-May, 2014 are overexertion, slipped or fell, struck by object, and caught or pinched. Also included are bee stings, lost balance, and "exposure to noise over time." Any or all of these incidents can arise from an individual's momentary loss of focus, which is why a PI ratio of 0.5 is so remarkable.

But I digress. GWR's total first-quarter revenue was $414 million, up four percent, of which $331 million, 80 percent, is from operations in North America (and Europe, but that's tiny in the total scheme of things). Operating income was $110 million, up three percent, of which $85 million, 77 percent, is North America and Europe. Corporate net income was $61 million, down six percent year-over-year, though after adjustments for fees and tax credits, pro forma net income was $63.8 million vs $57.6 million a year ago, up 11 percent. Ditto EPS.

North American commodity volume gainers included agricultural and forest products, steam coal, steel, and Class I overhead carloads. Petroleum products slipped 12 percent on weaker crude oil and LPG shipments. Nat Gas Liquids out of Eastern Ohio aren't coming to market quite as quickly as expected. The third quarter looks better, particularly from origins in Eastern Ohio and western Pennsylvania.

Total NA freight and non-freight revenue was $331,444, up five percent, on 451,493 carloads, up eight percent, and no change in RPU. NA operating expense was likewise up five percent, yielding three percent ops income gain and a 74.5 operating ratio, a 39 basis-point improvement.

The new Rapid City, Pierre & Eastern was a major contributor, adding some $5 million in customer-driven new revenue, although some lingering Class I congestion problems may have bitten into anticipated yield. Hellmann says, “Our biggest RCP&E challenge thus far has been achieving a consistent cycling of locomotives and cars to and from the railroad in order to clear a grain backlog that is building with the new harvest.” I see that as temporary and it puts the RCP&E squarely on the path for more business from more customers that Jack talked about when announcing the acquisition.

CFO T.J. Gallagher says GWR expects more Class I overhead traffic, continued strength in steam coal, and aggregates, grains and chemicals off the RCP&E over the next thirteen weeks. “Petroleum products carloads are expected to be flat year over year as weaker crude oil volumes are offset by growing NGL traffic. We expect our same-railroad average revenues per carload to increase about one percent, excluding the impact of changes in commodity mix, foreign exchange, and fuel surcharges.”

One last thought: There’s always chatter during the Q&A about future acquisitions but nobody ever asks about getting rid of properties that have fallen short of expectations or where market shifts have just made them no longer viable. GWR now has more than 100 individual short line names plus all the smaller roads and switching operations that are in the RailLink Group. Surely they can’t all be making the Rule of One Hundred threshold. What’s next for them?

Burlington Northern Santa Fe freight sales for the second quarter rose eight percent year-over-year to $5.5 billion on 2.6 million revenue units, up five percent; RPU gained but three percent, about on a par with the US Class Is. Merch units gained on crude-oil unit trains, grain, lumber (!!), aggregates and frack sand. Metals slipped four points, dragging down steel scrap ten points and coke 15 points. Consumer products (intermodal and auto) revenue units were up four percent and RPUs were held to a one percent increase.

Operating income was $1.7 billion, up seven percent as operating expenses gained eight percent thanks mainly to “severe weather and service-related challenges.” Fuel expense was up seven percent; we aren’t given RTM data so we can’t do fuel-burn comps, but we can back into a per-car number. UP paid $3.10 a gallon in both 2014 and 2013 second quarters; if BNSF paid the same, that implies total fuel burn up seven percent on eight percent more units, and no appreciable change in gallons per revenue unit. The operating ratio was 70.7, a degradation of 34 basis points, not bad, considering.