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“Amateurs talk strategy; professionals talk logistics” — Military Adage.

Canadian Pacific and Norfolk Southern shares could go into a “voting trust” pending an STB decision. Contributing Editor Frank Wilner writes in the *Railway Age Newswire*,

> A voting trust for railroads requires STB approval, which typically occurs in fewer than two months following a request. A subsequent decision on whether to permit a CP-NS merger could stretch more than a year, but no longer than 16 months, per statute, following filing of a formal merger application… The purpose of the [voting trust] management swap is to tamp down—sharply and quickly, before any STB decision on the merger application—the NS operating ratio, which would increase the value of NS stock substantially, notwithstanding how the STB rules on the merger application.

To put these players in perspective, both with respect to each other and to investor sentiment, this table compares recent share prices, the earnings and book value premiums, the discounted cash-flow intrinsic “Fair Value,” and the Margin of Safety — share price room to run before hitting FV. The “Graham Limit” is the number Benjamin Graham citied as a market average and is used in creating fair values for shares.

Ticker	Price	PE	PB	Guru DCF	MOS*	Mkt cap
CN	$59.72	18.2	4.9	$53.75	-11.1%	$47.2
CP	$147.96	22.0	3.6	$79.54	-86.0%	$22.6
CSX	$29.98	15.6	2.7	$47.16	36.4%	$27.6
GWR	$69.10	17.5	1.6	$57.09	-21.0%	$1.0
KSU	$92.26	21.0	3.0	$126.88	27.3%	$1.0
NSC	$95.38	15.3	2.4	$77.90	-22.4%	$28.3
UNP	$84.14	14.3	3.5	$164.83	49.0%	$71.7
RR Average		17.7	3.1			
Graham Limit		15.0	1.5			
*MOS: Margin of safety = Percent current price has to go to reach DCF Fair Value						

Among the lot, UNP has the most upside, followed by CSX and KSU. The rest are underwater, with share prices running ahead of Fair Value and CP the most overpriced of the lot. Note too that CP’s price/earnings ratio and price/book ratios are half again the NSC numbers. What this tells me is that investors are paying up for CP on the assumption that future financial performance will bring earnings growth and book value into line and share price closer to intrinsic value. That's the value side.

The chart watchers are more interested in how share prices are behaving *vis a vis* the market than how they relate to company value. First, the charts. NSC is the only railroad that is trading above its 200-day statistical moving average (SMA-200), a marker not seen since last April. Moreover, NSC is 11 percent above its SMA-50, again leading the pack, and since the summer swoon has moved to within 15 percent of its 52-week high, best of all rails.

CP, by comparison, is still 11 percent below the SMA-200, is two percent above the SMA-50, and still lags the 52-week high by 26 percent. The chart watchers give both CP and NS about an even chance to see share prices rise over the next two weeks to nine months, based on indicators such as moving average crosses and relative strength.

Dividends comprise a third area consideration. NS pays out 42 percent of earnings in dividends for a forward dividend yield of 2.5 percent. CP pays out 16 percent of earnings in dividends for a forward dividend yield of 0.7 percent. NS has increased its dividends 11 percent over five years for a five-year cost yield of 4.2 percent. CP over five years increased its dividends at an eight percent rate for a five-year cost yield of 1.1 percent. NS wins here.

I think in the last analysis it will boil down to financial strength, past performance, and convincing traders that one deal does more than the other in terms of total yield. As it stands, NSC has the better value story in one-year price performance, though CP leads the four-year chart largely on gains since HH came to town in mid-2012. That alone is pretty strong.

At a time when NS needs to streamline operations and build the non-coal carload franchise, two industrial park announcements are particularly timely. In Pennsylvania, Reading Blue Mountain & Northern Railroad (R&N) will assume ownership of the rail infrastructure at Hazleton's Humboldt Industrial Park beginning Jan. 1, 2016 through a 2012 agreement with the park's owner, CAN DO, Inc. Norfolk Southern has served the facility since the Conrail transaction twenty years ago.

R&N says it plans to run a scheduled service, but will provide additional rail switches when business needs warrant them. Traffic to Humboldt Industrial Park will be received from NS at Reading and move directly to Humboldt via Tamaqua and no traffic to Humboldt should move through downtown Hazleton. NS gains the use of power and crews for service elsewhere and avoids the local service expense associated with Humboldt.

In eastern North Carolina, Gulf & Ohio has won a competitive NCDOT bid to market and operate the state-owned Global Trans Park (GTP) railroad line in Lenoir County. Located just west of Kinston, the six-mile rail line connects to the NS-operated North Carolina Railroad.

NCDOT owns the GTP rail corridor, which was built in 2011 as the Carolina Railroad, connecting with the original Norfolk Southern, later the Southern. As in Pennsylvania, NS recovers the opportunity cost of power and crews serving the GTB branch.

The CSX Railroad Education and Development Institute (REDI) is open to short lines. Located at the Tony Ingram campus in Atlanta, the Institute is a CSX facility that serves to educate and train individuals entering the workforce. With a focus on safety and professionalism, REDI is a leading provider of employee training and certification to the North American rail industry.

The program modules include the basics of railroad safety, FRA freight car track inspection, locomotive movement, hazmat training, and on-track worker certification, wherein newcomers and veterans are trained to start and finish every day safely. Instruction includes using personal protective equipment, walking defensively, identifying potential safety issues and developing an automatic sense of working safely oneself and making sure one's co-workers do so too.

Having read about the program in an email that came in literally over the transom, I wondered if short line personnel, who work on CSX property at times and around and with their CSX peers, could participate.

Arthur Adams, Director of Regional and Short Line railroad Business Development at CSX, tells me, "Short Line employees already participate. At the ASLRRA southern region meeting in Atlanta we hosted a tour of the REDI and had more than two dozen folks in attendance. If short lines are interested they simply contact the REDI directly via email or phone." What a great opportunity to improve your skills and compare notes with your peers. Thanks, CSX, for opening these important doors.

This just in: NS rejects CP proposal. The NS press release says simply, "Norfolk Southern has made growth investments and we expect to realize the benefits of these investments in the years ahead… We expect to achieve an operating ratio below 70 in 2016 and below 65 by 2020… We believe that Canadian Pacific's short-term, cut-to-the-bone strategy could cause Norfolk Southern to lose substantial revenues from our service-sensitive customer base."

In other words, NS is saying it can manage the franchise as well or better than CP ever could and intends to do so. Running a franchise to plan takes leadership and focus. Both are in the Norfolk Southern DNA.