# RAILROAD WEEK IN REVIEW

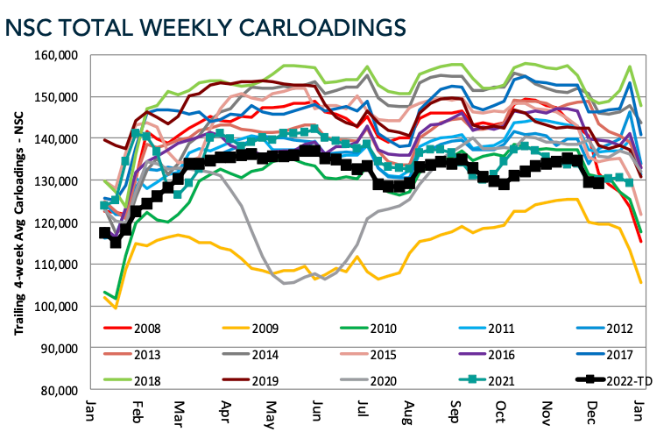
## December 16, 2022

*“We've either attended or watched the webcast of every major railroad investor day over the last 22 years and this one might just be the single most significant. For the first time we have a management team that correctly identifies, publicly acknowledges, and launches a strategy that takes direct aim at the industry's Achilles Heel: the historic crew (mis)management that has played a part in 10 of the last 13 Class I meltdowns since 2013. Enough is enough.” — Rick Paterson, Loop Capital*

**Given the robust and encouraging** NS Investor Day conference last week, it might be useful to look at share price performance in the context of revenue units. The adjacent chart has NS share prices down about 18 percent since their January highs.


What I think is happening here is the Street is spooked by all the recession talk and is punishing the IYT transport ETF, now down 15 percent with trucks and planes slightly weighting the index to the upside.

Part of the recession fear comes from slowing GDP numbers. However, as Schwab’s Jeffrey Kleintop points out, GDP is what’s MADE here and excludes imports. So as near-shorting increases, and more stuff is made here for local consumption, both the GDP and transport numbers will improve.




The weekly NS carload chart from Bascome Majors shows a slight YTD gain (heavy dark line). By commodity line, intermodal is down five percent and merchandise is down two percent against low single-digit increases for coal and grain. The NS Week 48 carload report shows total revenue units down three percent.

Thus I conclude the Street's perceived weakness in the economy has dragged down railroad share prices excessively. I think the positive outlook from NS the other day and comments from market watchers like Kleintop together say 2023 will be better than 2022.

**Here's a nice win** for the Winchester & Western, a recent OmniTRAX acquisition. They have inked an agreement to serve a new micro steel mill to be built by Commercial Metals Company mill near Martinsburg, WV. This $450 million project will be the fourth such mill for the Texas-based company, employing some 230 people on a full-time basis.

CMC, the largest manufacturer of steel reinforcing bar (rebar) in North America and Central Europe, will be capable of producing various sizes of both straight length and spooled rebar. and is expected to have an annual capacity of 500,000 tons of product. The new plant is scheduled to begin operations in late calendar 2025.

The CMC mill project was a collaborative economic development effort by OmniTRAX, State of West Virginia leaders, and Berkeley County officials. The W&W supplemented a state and county incentive package with a custom rail service agreement and additional infrastructure investments.

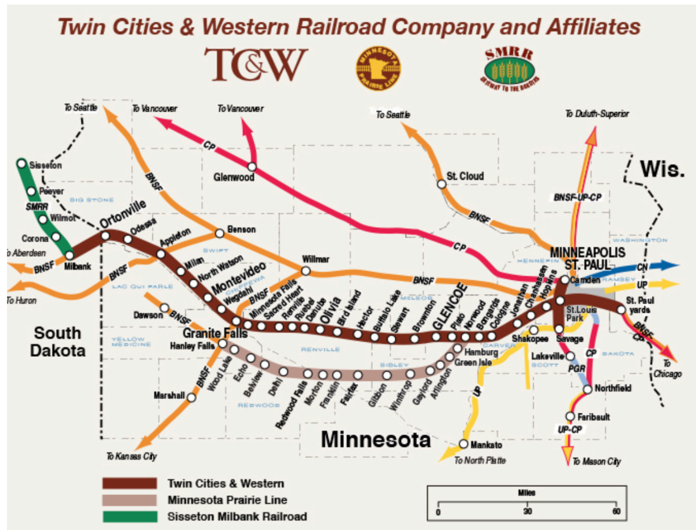
The plant site is not far from the W&W's Norfolk Southern interchange in Hagerstown, MD. As steel figures prominently in the NS merchandise carload franchise, we have here an excellent opportunity for NS to demonstrate its shortline collaboration as mentioned during the NS Investor Day last week.  CMC anticipates a late 2025 facility opening.

**South Dakota's Sisseton Milbank Railroad** (SMRC) is a 37-mile ex-Milwaukee (mixed trains only) branch line in need of repair. The traffic base of grain and building materials has grown to the point that the 263-only FRA Excepted track (some of which dates to 1884) can't keep up. And so the South Dakota budget is set to allocate more than six $million to bring the line into the 21st Century.

The Twin Cities & Western Railroad Company (TC&W) — based in Glencoe, MN — acquired and began operating SMRC in July of 2012 and the line operates as a subsidiary of TC&W. This project is the second phase of the reconstruction of the Sisseton Milbank

Railroad. The first phase is the replacement of the Lake Farley Bridge. The Lake Farley project was granted a $1.937 million Special Transportation Circumstances grant by the South Dakota Railroad Board. The South Dakota Department of Transportation submitted the STC grant to USDOT.

The state funding, if approved by the legislature, would come from a 2023 fiscal-year surplus, and would be available as soon as a decision is announced on the federal grant, which should come in spring or summer 2023.




**The Aberdeen, Carolina & Western** (my very first shortline client, some 30 years ago) has filed to acquire the 104-mile NS Gulf-Charlottesville line.

Part of the original Norfolk Southern mainline between Norfolk and Charlotte (the Southern bought it in 1974), the original NS dated to the post-Civil War period as a small line intent on connecting northeastern North Carolina with the Norfolk, Virginia area. In the succeeding years it slowly expanded south through the Tarheel State before proceeding west across the Piedmont.

ACWR has operated the line on a lease basis since 1989; feed grain and forest products are the principal commodities. Portions of the line have been dormant for years, partly because the light rail could not support today's heavier carloads. The ACWR having title to the property would facilitate the upgrades needed to support customers' expansion programs.