

RAILROAD WEEK IN REVIEW

November 15, 2024

“Analysts at Wolfe Research, a boutique firm that focuses on the transportation sector, think Trump’s win is a positive for railroads -- if for no other reason than that President Obama and Clinton were so against the coal industry. ‘President Obama’s anti-coal regulations have been painful for the rails the past several years, but Mr. Trump is much more pro-coal,’ the Wolfe analysts said. ‘Anti-coal regulations such as the Clean Power Plan are now less likely to be implemented.’” — CNN Business, Nov 11

“Waycross Yard dwell time is made up of three main components. First, the humping operation: in-gate, classification, out-gate, all within 24 hours. Second, Waycross also has a local yard within the same complex, and cars in this yard can sit for longer (72 hours isn’t uncommon). Third, dwell times for cars sent to the repair are restarted when the cars are released from the repair shop to the out-gate. So the 24.9 is a blended number for the humping operation (less than 24 hours), local yard (more than 24 hours), and released from repair.” — Rick Paterson, Loop Capital, November 10 note

“In the words of Benjamin Graham, the market is a voting machine in the short term. It may be a weighing machine in the long term. And that long term is years, sometimes a decade, right? But in the short term, what are the buying flows and what are the selling flows?” — Cem Karsan, founder of Kai Volatility, Real Vision, November 12

CSX Investor Day 2024 was held November 7 on Amelia Island, a delightful spot on the Gulf Stream-warmed Atlantic Ocean just south of the Georgia state line. In his opening remarks CEO Joe Hinrichs set the overriding theme of customer engagement. We’ve heard it all before, but this refreshing level of focus from senior management was most welcome.

The buzzwords were all there: a proactive growth strategy, attracting new development to rail, deepening customer engagement, and realizing the potential. And that all took center stage before going into the usual operating metrics and financial results. As I’ve written *ad nauseam*, management guru Peter Drucker always said the first mission for any business is to create customers.

Arthur Adams, SVP Sales & Marketing, says CSX is “deepening customer engagement,” particularly in the merchandise carload sector, which brought in more than 60% of total CSX revenue last year — call it \$2.2 billion. That represented a 1.2% CAGR in an environment where comparative growth rates were 0.7% in US Class I merch volume, industrial production down 40 basis points, and truck tonnage down 2.7%.

Clearly the CSX goal of attracting new business is in the process of being achieved. Christina Bottomly, VP Business Development and Real Estate, showed how CSX helps customers find and build rail-served facilities. There are four elements: site selection, site design, customer commitment, and project management.

There are now more than 500 new customer sites or expansions in the pipeline, the most dense areas being the upper Midwest and the Middle Atlantic states.



Pulling it all together, Bottomly says the CSX site design program “meets customer needs, supports customer commercial initiatives, and enhances customer operational capabilities.” Which is all fine and good, yet carries a caveat for short lines: when you bring CSX a site design opportunity, make sure CSX doesn’t take your lead and shop it to a site local to CSX. It’s happened before and there have to be assurances it won’t repeat.

As encouraging as the Investor Day remarks and proceedings were, the fact remains that CSX, like its peers, has seen little if any appreciation in share prices for at least three years. Fact is, share prices move according to supply and demand. Where the buyers’ demand for shares is greater than sellers’ ready supply, prices go up. The reverse occurs when there are more shares for sale than there are buyers looking to accumulate shares.

CEOs and CFOs are charged with increasing demand for shares while decreasing the number of shares for sale. This 3-year weekly chart shows there has been relatively little appetite for buying — or selling — CSX shares. The whole purpose of the Investor Day

outing was to make the demand for CSX shares greater than the supply thereby pushing share prices up and to the right.

The analyst's job is to paint a positive picture of the property and thus increase demand. Judging from this chart, it hasn't been working. The whys serve only to get the ball rolling and increasing share prices makes both sellers and buyers happy. Look at any volume chart and see transactions increase along with prices.

Paint an ugly picture and volume increases to the down side. In the case of CSX, there's been no excitement either way. I'm hopeful that last week's event will help the upside by showing potential CSX share buyers how the railroad intends to move more boxes at better margins thus heightening demand for its shares.



I get the distinct impression that CSX is going all out to create customers in the Peter Drucker mode and to be sure the customers thus created will stick around for the longer term. What CSX is doing in the merchandise carload sector in particular is key. Their initiatives and potential hit rates are most admirable. Given the tone of the recent STB hearings on railroad growth, there is much to be said for these CSX initiatives.

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