

CAD Rails Dashboard: September 2024 Monthly Review

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September 1, 2024

Note Overview

In this month's edition, we outline the Class 1 CAD rail traffic and their outlook. The CAD rails remain the bedrock holdings for TRUSIF, and we still recommend a hold rating despite street ratings based on trends.

Canadian National Railway

RTMs and Carloads – Overall, CNR's RTMs: Are down (-4.1%) y/y, driven by Coal (-14.1%), Grain (-12.2%), and Intermodal (5.8%) while being offset by Food & Kindred Products (2.5%). Carloads were also down (-2.4%) y/y due Coal (-19.0%), Grain (-8.5%), and Petro & Chem (-4.5%), slightly offset by Metals & Minerals (3.3%).

Outlook – Revenue synergy opportunities from the acquisition of Iowa Northern Railway (IANR) add to CN's strong growth pipeline. The intramodal segment will continue to grow as CN has interline partnerships with UNP and GMXT, and CN is the only Canadian EMP partner. Key areas to focus for H2/24 volumes expectations for Forest Products, Grain, and Intermodal.

Canadian Pacific Kansas City

RTMs and Carloads – Overall, CPKC's RTMs Are down (-0.9%) y/y driven by Grain (-10.8%), Coal (-8.2%), and Metals, Minerals & Consumer Products (-6.1%), offset by Automotive (79.5%) and Potash (37.1%). Carloads Were also down (-4%) y/y due to Fertilizer & Sulphur (-21.1%), Metals, Minerals & Consumer Products (-12.3%) and Grain (-8.4%), offset only by Potash (30.1%), and Automotive (45%).

Outlook – CPKC forecasts core adjusted combined diluted earnings per share will grow in the double digits this year from \$3.84 per share. CPKC plans to spend \$2.75 bln on infrastructure upgrades and purchases throughout 2024. During recent presentations, management holds their positive outlook for on volume and pricing conditions. Key areas to focus for H2/24 would be Grain and Intermodal volumes and potential work stoppage.

Notable CAD News

CN Announces US\$750 Million Debt Offering - Public debt offering principal amount of 4.375%. CN plans to use the net proceeds from the debt offering for redemption and refinancing of outstanding indebtedness, share repurchases, acquisitions and other business ventures.

Notable US News

Norfolk Southern and BNSF Stop Strike Trends - Norfolk Southern and BNSF Railway have reached tentative five-year contract agreements with additional unions four months before the national collective bargaining opening round. Norfolk Southern covers approximately 55% of the railroads' unionized workforce. These tentative agreements provide a 3.5% average yearly wage increase over the next five years with earlier vacation time and enhanced health care benefits.

Port Strike Still on Schedule - Tens of thousands of port workers at East and Gulf Coast ports confirm to walk off the job when the current contract with United States Maritime Alliance (USMX) expires at 12:01 AM Tuesday. The International Longshoremen's Association (ILA) will set up pickets on Oct. 1st at ports from Maine to Texas. Seeking a wage subjugation where profits skyrocketed from millions to mega-billions while ILA wages remained stagnant. This strike would affect ports handling 92 bln or two-thirds of the U.S. trade. The Biden Administration has no plans to force longshore employees back to work. Manufacturers and other shippers spent most of the summer frontloading imports for the end-of-year retail season to be ahead of the possible incoming strike.

VALUATION & TRADING

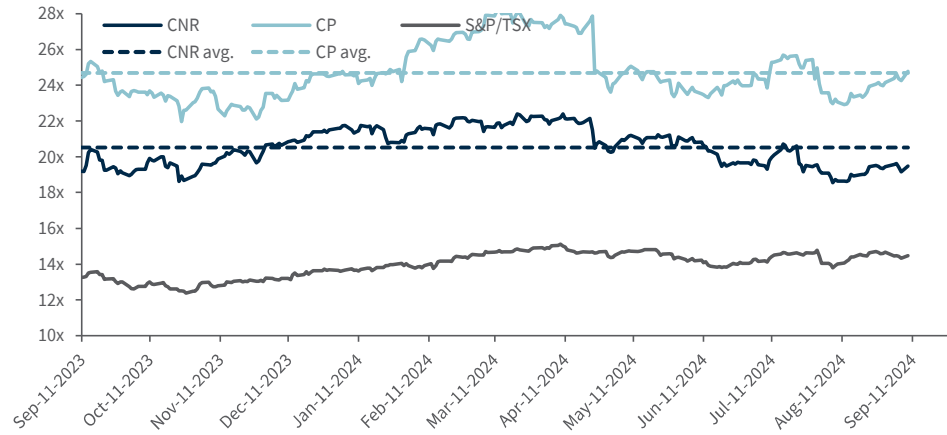
Exhibit 1: Rail Comps

Company	Ticker	Current Price	Dividend	EV (\$mln)	Mkt. Cap. (\$mln)	EV/EBITDA			EPS			P/E		
						2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
Canadian National Railway	TSX:CNR	157.37	2.15%	119.6	99.1	14.2x	13.8x	12.7x	\$7.26	\$7.55	\$8.50	0.0x	20.8x	18.4x
Canadian Pacific Kansas City	TSX:CP	115.04	0.66%	130.8	107.8	17.9x	16.2x	14.1x	\$3.78	\$4.28	\$5.10	0.0x	27.1x	22.7x
Average (CAD rails)						16.1x	15.0x	13.4x				0.0x	24.0x	20.6x
Union Pacific	NYSE: UNP	245.51	2.19%	180.8	148.8	10.4x	9.7x	9.0x	\$10.30	\$11.15	\$12.50	0.0x	21.9x	19.6x
CSX Corp.	NASDAQ: CSX	34.55	1.39%	84.8	66.9	16.6x	16.4x	15.5x	\$1.83	\$1.93	\$2.15	0.0x	17.9x	16.2x
Norfolk Southern	NYSE: NSC	248.18	2.19%	73.2	55.7	22.4x	21.7x	19.7x	\$11.78	\$11.80	\$13.75	0.0x	21.0x	18.0x
Average (US rails)						16.5x	16.0x	14.8x				0.0x	20.3x	17.9x
Average (CAD & US rails)						16.3x	15.5x	14.1x				0.0x	22.1x	19.3x

Source: Capital IQ; TRUSIF

Exhibit 2: Forward P/E (CAD vs. TSX)

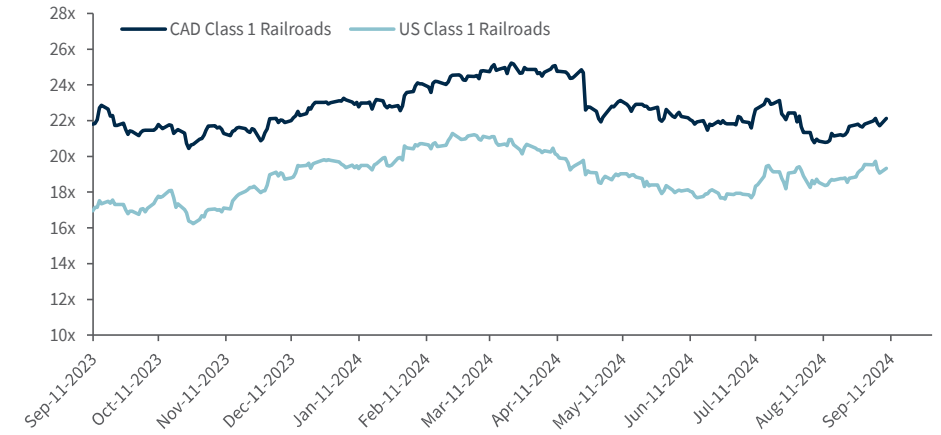
X.X



Source: Capital IQ; TRUSIF

Exhibit 3: Forward P/E (CAD vs. US)

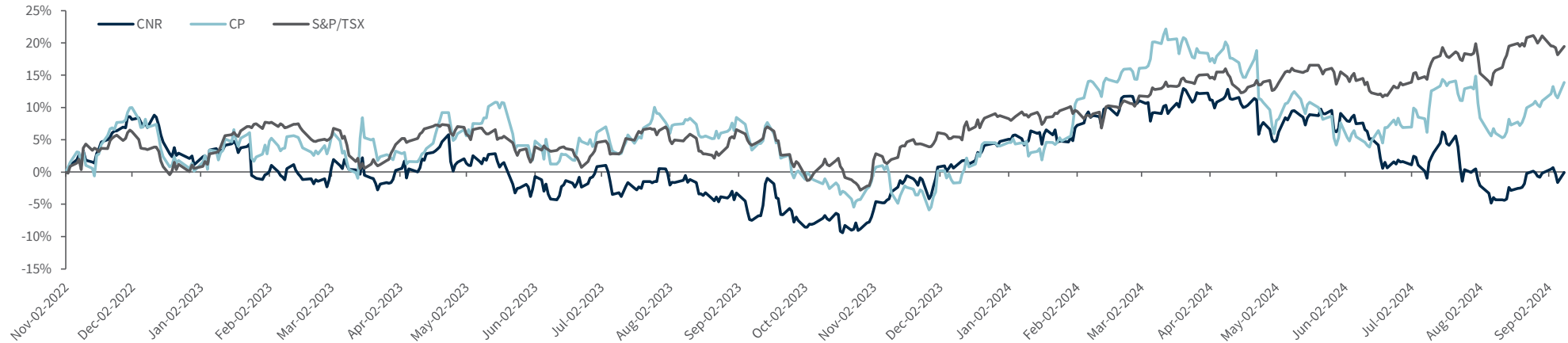
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Source: Capital IQ; TRUSIF

Exhibit 4: Share Performance Since Inception

%



Source: Capital IQ; TRUSIF

KEY METRICS

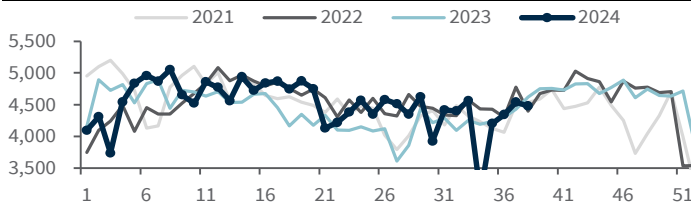
CNR Carloads: Week 39	Weekly	QTD	'24 YTD
Forest Products	-3.0%	-4.6%	-2.8%
Petro & Chemicals	-4.0%	-0.2%	3.1%
Metals & Minerals	-11.8%	-6.4%	-1.7%
Automotive	-9.6%	-14.2%	-7.5%
Coal	-18.6%	-6.5%	1.5%
Grain & Ferts	4.9%	11.0%	3.8%
Intermodal	-5.1%	1.4%	4.5%
Total	-7.2%	-1.9%	0.0%

Source: Company reports; TRUSIF

CPKC Carloads: Week 39	Weekly	QTD	'24 YTD
Forest Products	-7.7%	-8.1%	-7.7%
Energy, Chem. & Plastics	45.0%	5.3%	2.2%
Metals, Minerals & Con.	-12.3%	-4.1%	-3.0%
Automotive	45.0%	9.6%	7.3%
Coal	-5.8%	-5.0%	-9.0%
Grain & Ferts	-29.5%	0.2%	-5.2%
Intermodal	-7.8%	-8.2%	-7.3%
Total	-4.0%	-3.0%	-3.4%

Exhibit 5: Total RTMs

CNR: ▲ 13.8%



Source: Company reports; TRUSIF

CPKC: ▲ 4.6%

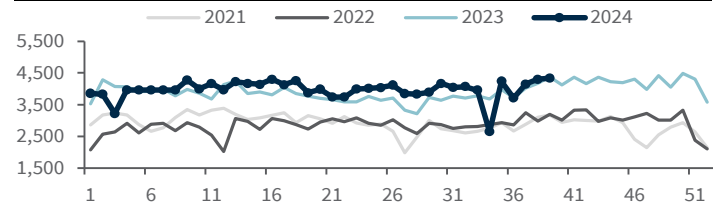
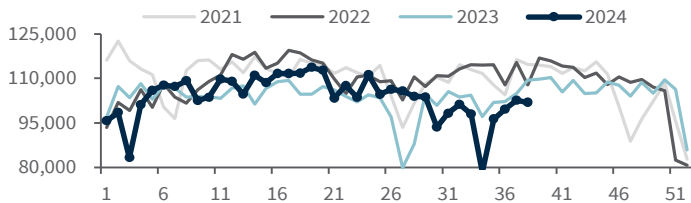


Exhibit 6: Total Carloads

CNR: ▲ 5.3%



Source: Company reports; TRUSIF

CPKC: ▼ -0.8%

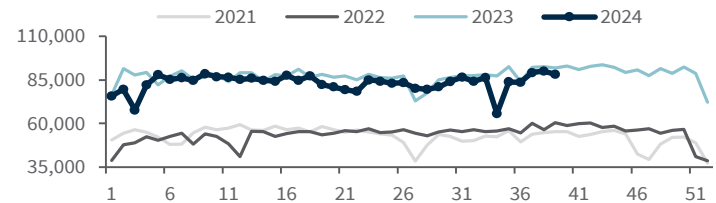
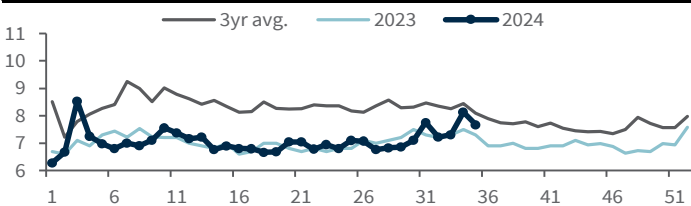


Exhibit 7: Terminal Dwell

CNR: ▼ -8.3%



Source: Company reports; TRUSIF

CPKC: ▼ -19.3%

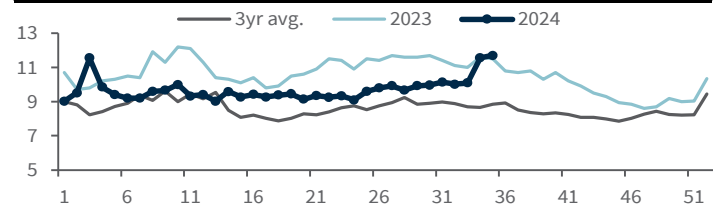
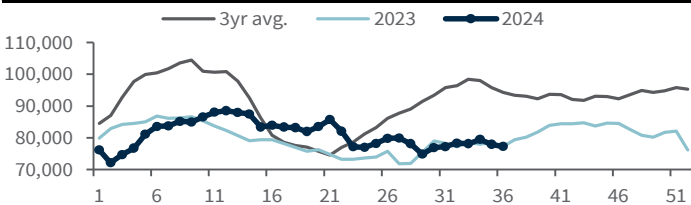


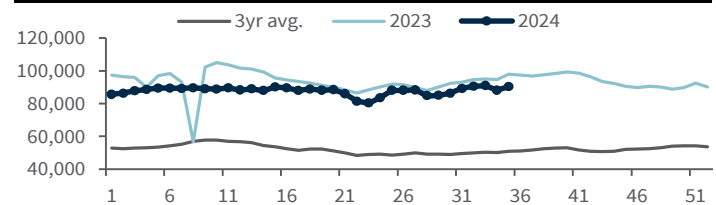
Exhibit 8: Cars Online

CNR: ▼ -1.6%



Source: Company reports; TRUSIF

CPKC: ▲ 58.0%

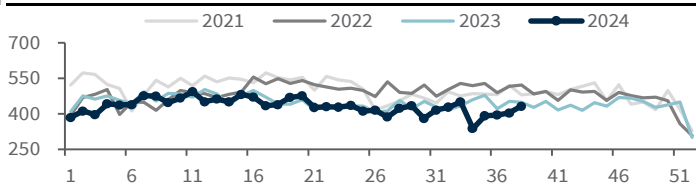


APPENDIX ITEMS

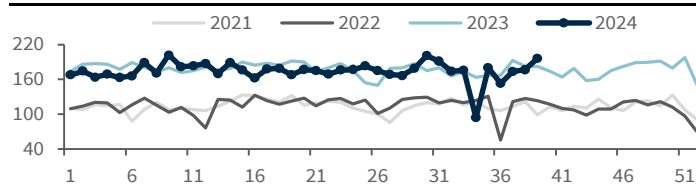
Exhibit 9: RTM Breakdown

Weekly

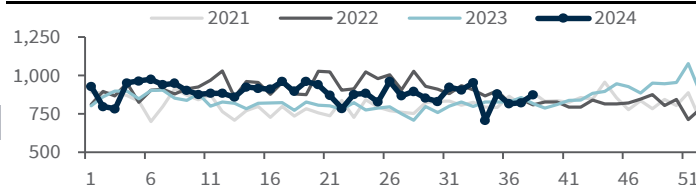
CNR Forest Products: ▲ 4.3%



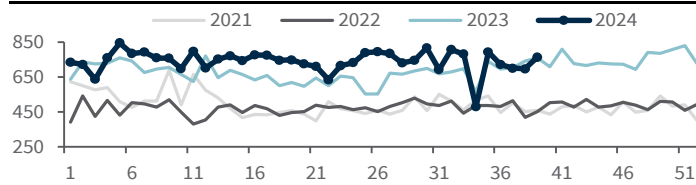
CPKC Forest Products: ▼ -1.2%



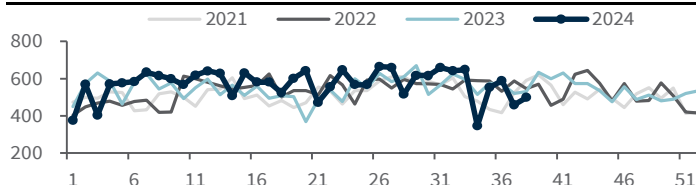
CNR Petro & Chemicals: ▲ 11.2%



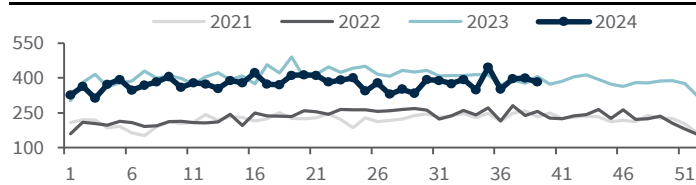
CPKC Energy, Chem. & Plastics: ▲ 9.1%



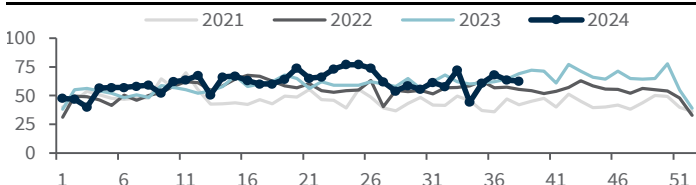
CNR Metals & Minerals: ▲ 13.0%



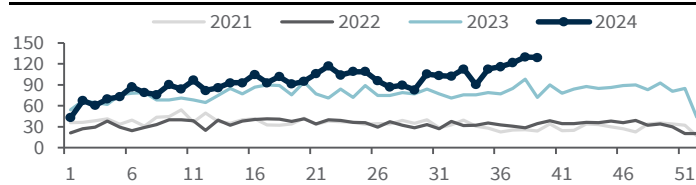
CPKC Metals, Minerals & Con.: ▼ -4.0%



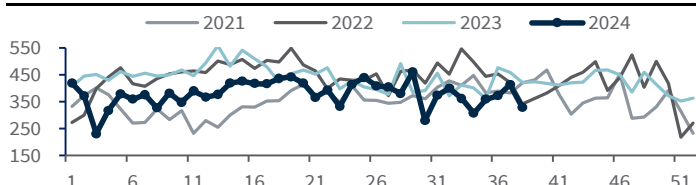
CNR Automotive: ▲ 22.1%



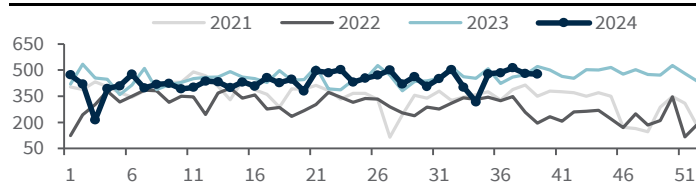
CPKC Automotive: ▲ 11.8%



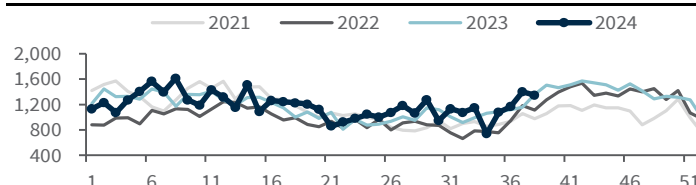
CNR Coal: ▼ -26.5%



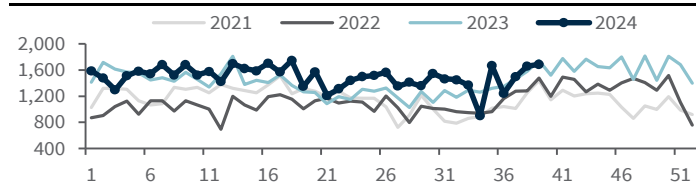
CPKC Coal: ▲ 7.4%



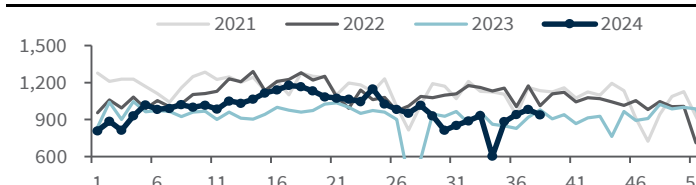
CNR Grain & Ferts: ▲ 37.2%



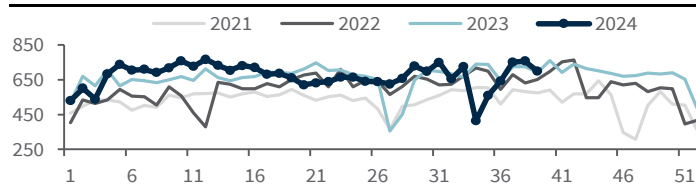
CPKC Grain & Ferts: ▲ 6.8%



CNR Intermodal: ▲ 10.5%



CPKC Intermodal: ▲ 9.2%



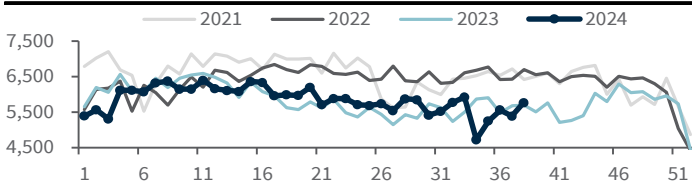
Source: Company reports; TRUSIF

APPENDIX ITEMS

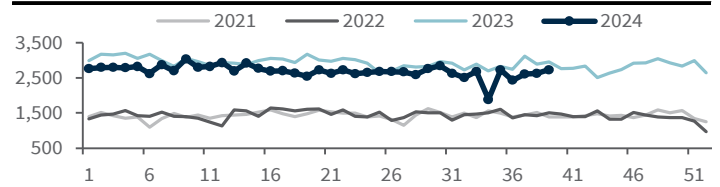
Exhibit 10: Carload Breakdown

Weekly

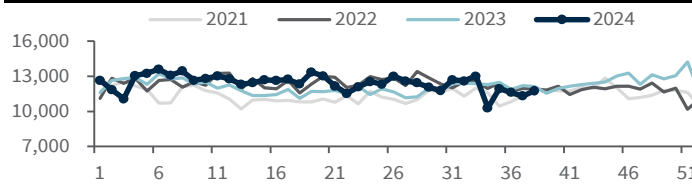
CNR Forest Products: ▲ 2.9%



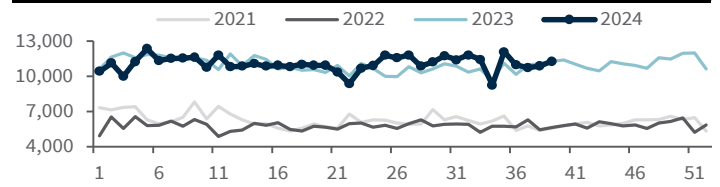
CPKC Forest Products: ▼ - 4.5%



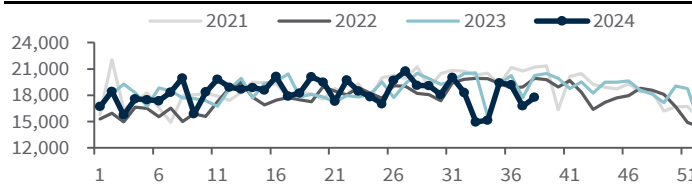
CNR Petro & Chemicals: ▲ 4.6%



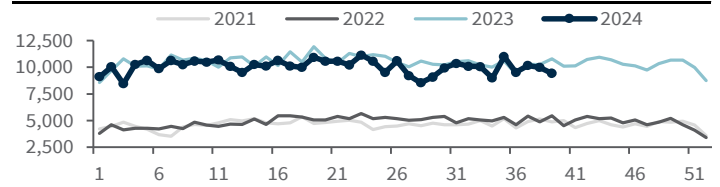
CPKC Energy, Chem. & Plastics: ▲ 0.4%



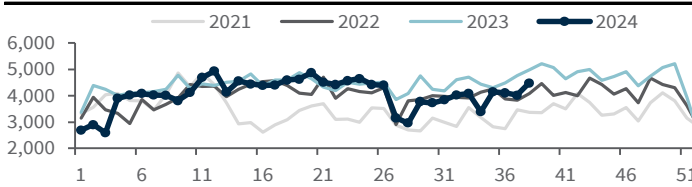
CNR Metals & Minerals: ▲ 12.8%



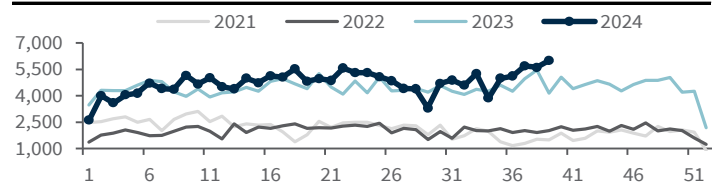
CPKC Metals, Minerals & Con.: ▼ - 3.8%



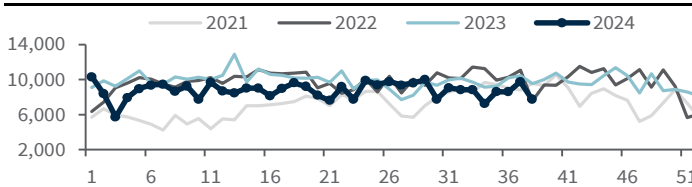
CNR Automotive: ▼ - 5.3%



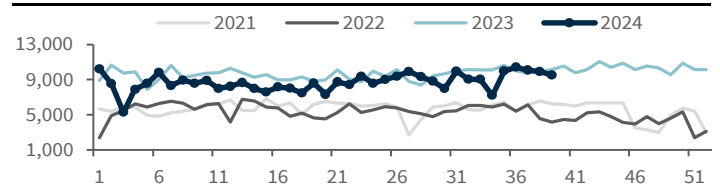
CPKC Automotive: ▲ 3.4%



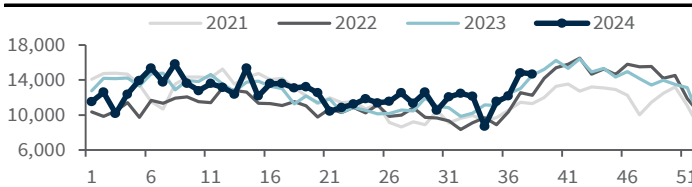
CNR Coal: ▼ - 16.0%



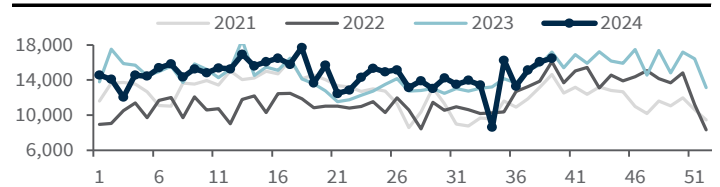
CPKC Coal: ▼ - 3.0%



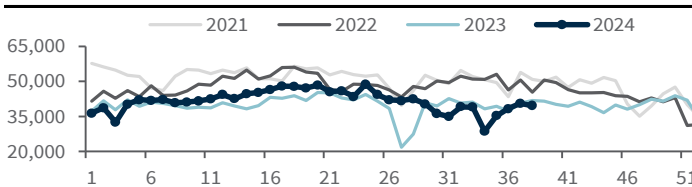
CNR Grain & Ferts: ▲ 23.1%



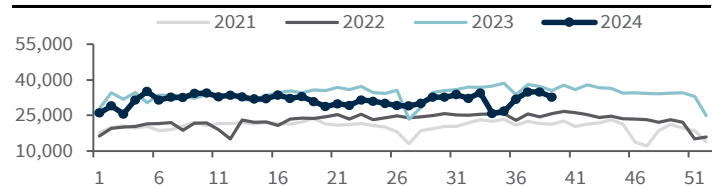
CPKC Grain & Ferts: ▲ 4.4%



CNR Intermodal: ▲ 3.4%



CPKC Intermodal: ▼ - 2.0%



Source: Company reports; TRUSIF

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