

Wall Street firms seeing a freight rail recovery

(Dow Jones circulated the following story by Brendan Conway on September 3, 2009.)

NEW YORK — Some on Wall Street are sounding bullish notes on rail freight, predicting a sector recovery on sequentially improving commodity traffic and urging investors to buy the stocks.

They are buoyed by weekly transport data showing that traffic in several commodities is measurably better than in the Spring - even though they are still in many cases 20% under their 2008 levels.

But they're less enthusiastic about the prospect of the U.S. consumer helping rail traffic along, saying instead that industrial recovery is likelier to lead the way.

Thursday morning, BMO Capital Markets raised its rating of carriers Norfolk Southern Corp. (NSC) and CSX Corp. (CSX) to outperform from market perform, saying that coal and a turn in manufacturing and chemicals should boost both.

"My instinct says we have a recovery," lead analyst Randy Cousins told Dow Jones Newswires. He called the second quarter a bottom, while noting that the year-over-year numbers "are still ugly." Cousins also said that international shipments are still hard-hit, as well as intermodal.

Shares in major rail carriers were up in recent Thursday trading. CSX led gainers with a 6.4% jump to \$44.38, while Norfolk Southern rose 5.2% to \$46.79, and shares in Union Pacific Corp. (UNP) rose 2.3% to \$60.03.

BMO is not bullish on all rail stocks. It cut its view of rail carrier Burlington Northern (BNI) Tuesday to market perform. "The U.S. consumer will be in financial rehab for a couple of years," Cousins said as he told clients to buy elsewhere.

Meanwhile, Morgan Stanley has been sounding bullish notes on freight rail stocks for nearly a month, calling rails the "best way to play an industrial recovery" in a recent note to clients.

The first week of August, the firm said it saw hints of a near-term recovery in the rail traffic numbers.

Chemicals, metallic ores and metals volumes - all key to auto production - were up the previous weeks, it noted.

Last week, Morgan Stanley noted that commodity shipments over the previous four weeks were improved at five major railroads, and that hard-hit intermodal traffic was up at four out of the five.

Wednesday, Avondale Partners initiated coverage of Burlington Northern, Union Pacific, CSX and Norfolk Southern, starting each with a market perform rating.

It touted the firms' handling of rates and prices during the recession, and said that railroads make a good hedge against any devaluation in the dollar.

Friday, September 04, 2009