Ride these rails to prosperity

As gas prices rise, railroads are positioned to profit

"Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him"
— Dwight D. Eisenhower

Jim Burns
Contributing writer

As I'm sure you have noticed, I like to remind readers of this column about my winning picks — while altogether ignoring my losers!

So, in this spirit, back in March 2016, I recommended railroad stock CSX, whose trains populate the local rail tracks. In just over two years, CSX stock is up a whopping 132 percent, versus 36.5 percent for the S&P 500 Index. Quite a pick.

As I'm also sure you have noticed, the price for a gallon of gas has risen to about $3 a gallon here in Central New York. Not great news.

However, there are ways for shrewd investors to minimize the pain at the pump: railroad stocks. Combined with a U.S. economy that continues to chug along — pun intended — local investors can find superb opportunity now in an old economy industry with decidedly new economy growth.

The fact is, few industries are as positively correlated with an accelerating economy and higher gas prices than the railroads. Raw materials, resources, and consumer goods are demanded at higher levels in this kind of environment, which for railroad companies means greater shipment volumes and increased income rising stock prices.

In 2017, United States rail traffic grew 3 percent, supporting a 30 percent average gain for railroad stocks versus 22 percent for the S&P 500 Index.

The superior performance of railroad stocks has continued into 2018, which is up, on average, 6.5 percent year to date vs. 2.25 percent for the S&P.

With a strong economy expected over the next year, railroads will continue to see high volumes and profits. Tax reform provides another boost for railroad companies and analysts project that the resulting free cash flow can prompt them to raise their dividends by 15 percent to 20 percent. Additionally, as the issue of rebuilding America's infrastructure becomes more pressing, railroads will play a vital role in the multi-year process.

The pain Americans experience as a result of higher gas prices is actually welcomed by railroad companies. In this setting, railroads have a competitive pricing advantage over trucking, as corporations increasingly choose railroads over trucks to ship their goods to avoid expensive fuel costs from truckers. As the price of oil continues to climb beyond $70 a barrel, railroads will be the beneficiary. Below are three rail stocks that I believe represent short and long-term stock price appreciation potential.

Union Pacific (ticker symbol UNP): America's largest railroad company is connected with roughly two-thirds of the country by rail. Union Pacific's leading position in the railroad industry has put it at the center of the industry's tailwinds, up 8.5 percent year to date and just under 40 percent in the last year.

Genesee Wyoming (ticker symbol GWR): The international shortline railroad company is the largest in North America and has operations in Australia, the United Kingdom, and Europe. With over 115 shortline and regional railroads, Genesee Wyoming is positioned to benefit from favorable railroad and commodity trends. Down roughly 1 percent year to date, the stock may have extra room to grow as railroads enter their most profitable time of the year.

Norfolk Southern (ticker symbol NSC): The largest railroad in the Eastern United States operates 20,000 miles of track in 22 Eastern and Southern states. The company runs one of the safest and most efficient railroads in the United States, helping to keep costs lower and margins wider. In its first quarter of 2018, the company reported a 30 percent rise in earnings per share, on the heels of lower corporate taxes and near record level performance from intermodal revenues and shipments.

I would rate CSX a hold at current prices, but it really is an outstanding business.

To sum up, the railroad industry is currently enjoying several secular tailwinds that should continue to drive superior profitability for years to come.

We all know that in the classic game of Monopoly you want to own the railroads. When it comes to your real money, please do the same!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment.