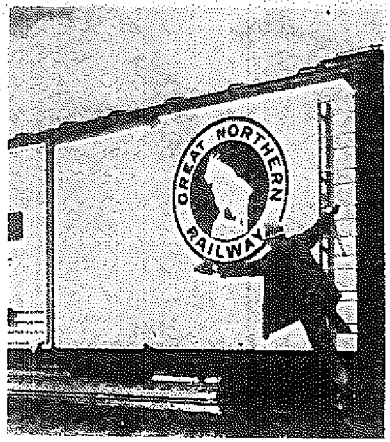
Northwestern Rails in Good Position

Recent rate increase gave largest adjustment to roads in this group. Heavy flood damage is an adverse factor, but crop prospects now appear good and area is growing



The railroads serving the Northwestern region of the United States are, for the most part, a highly volatile group in terms of both market performance and earnings. Weather conditions make operations difficult during winter months, large areas are sparsely populated and the typical road serving this territory requires a substantial volume of traffic before operations can become profitable. (All of the carriers in the table, except Great Northern and Northern Pacific, went through reorganization.) On the brighter side, this area is rich in natural resources and is undergoing more rapid economic growth than many other sections of the country. Aluminum plants, lumber mills and atomic energy installations exemplify the large capital expansion now being witnessed, while Government irrigation projects — such as those reclaiming vast acreage in the State of Washington — will further bolster agriculture in the region.

Most railroads serving the Northwest have a high degree of earnings leverage, a case in point being the Chicago & North Western. Although handicapped by considerable branch mileage, low traffic density and only limited revenue per car of freight because of a short-haul, the road can show substantial earnings on its small capitalization if grain crops are heavy and winter snows light. A North Western vice president states: "So much of our mileage is concentrated in the severe winter sections of Wisconsin, Minnesota and upper Michigan that it is bound to produce a serious effect upon our costs and efficiency factors."

In 1951, snow removal expense of nearly $2 million was an important factor contributing to the company's poor showing and the heavy losses incurred in the first four months of this year are largely attributable to the severe April floods. Dividends on the road's preferred are cumulative to the extent earned, and last year's earnings of $2.55 per preferred share became an accumulation which was cleared by a payment of that amount last March.

Others in Group

The similarly-named but much smaller Chicago Great Western (largely a bridge road since much of its traffic is neither originated nor terminated on its lines) made an 85-cent payment on preferred arrears last month, leaving $3.15 per share of arrears on the senior issue; dividends are cumulative, whether or not earned, up to 15 per cent. Considerable progress in operating efficiency has been attained through 100 per cent dieselization, while the carrier's close relationship with the Kansas City Southern has led to speculation that a merger of the two roads may eventuate at some future date. Another fully-dieselized railroad, the Minneapolis & St. Louis, has the further distinction of being one of the few Class I roads with virtually a single-stock capitalization. Once labeled the "Misery and Still Limping," the road has more recently been referred to as the "Modern and Streamlined," attesting to the rapid strides made since it emerged from reorganization in 1943.

The first railroad built in the Northwest, the Northern Pacific, is today analyzed more as an oil company than as a railroad. To be sure, oil and gas royalties in 1951 amounted to only $694,056, and there are now only four producing wells on the railroad's lands. But "Nipper" does own some 3.2 million acres of land or mineral rights within the limits of the Williston Basin and oil and gas rights, in all, are held on more than eight million acres; these holdings have immeasurable potentialities. Of more current significance, earningswise, is ownership of 830,179 shares or 48.6 per cent of the common stock of the Chicago, Burlington & Quincy, in which Great Northern has a similar

A Statistical Look at the Northwestern Railroads

	Oper. Revenues (Millions)		Earned Per Share — Annual		Earned Per Share — 4 Mos.	Operating Ratio		Miles of Road Oper.	*Dieselization Ratio	†Passenger Revs.	Indic. Dividend	Recent Price
	1950	1951	1950	1951	1952	1950	1951					
Chic. Great Western	$33.2	$34.1	$2.92	$0.67	P$2.35	70.4%	72.2%	1,474	100%	a	Nil	19
Chic., Mil., St. P. & P.	255.4	265.4	4.16	1.75	P0.85	78.2	82.7	10,671	76	7%	b$2.00	21
Chic. & North Western	188.9	203.5	1.06	3.53	PD4.34	84.3	87.6	c7,915	81	11	Nil	19
Gt. Northern "Pfd."	227.5	248.0	9.11	7.83	D0.14	71.3	74.3	8,316	46	5	4.00	51
Minn. & St. Louis	20.9	21.9	4.61	2.77	0.84	71.9	75.3	1,406	100	2	1.00	15
Minn., St. Paul & St. Ste. Marie	38.4	41.5	2.15	2.60	D1.20	81.5	84.5	3,224	75	2	1.00	17
Northern Pacific	167.2	173.7	7.87	6.44	D0.09	72.9	78.9	6,887	44	4	3.00	76

*Per cent of freight ton-miles moved by diesel power in 1951 or being moved at year-end. †Per cent of passenger revenues to total revenues. a—Nominal. b—Paid in 1951. c—Chicago, St. Paul, Minn. & Omaha (98 per cent controlled) operates 1,617 additional miles. P—On preferred stock. D—Deficit.

interest. Northern Pacific's income from the Burlington, based on the $7 annual rate maintained by the latter in 1951, amounts to $2.34 per share of N-P and it is worth noting that the Burlington pays out only a moderate proportion of its earnings.

Like the Northern Pacific, the Great Northern also obtains entrance into Chicago over the Burlington's lines. But unlike the "Nipper," Great Northern owns no substantial acreage from which oil royalties might be derived, although potentialities for increased freight traffic have been enhanced by the discovery of oil in its territory. The Chicago, Milwaukee, St. Paul & Pacific, too, has been mentioned in connection with oil rumors, but timber holdings—although far less glamorous—may prove more valuable in the long run. Milwaukee Land Company, a subsidiary, owns over 200,000 acres of land containing roughly three billion board feet of timber. There is no current drilling activity by oil companies on company lands, although a new lease agreement was recently signed covering acreage near Chehalis, Washington. Light density lines and high-cost terminal operations are knotty operating problems for the Milwaukee, whose net income declined from $15 million in 1950 to $10 million last year. So far this year, earnings have been better than in the comparable months of 1951, even though flood expenses in April were heavy.

Current Outlook

The ability of the leading Northwestern rail systems to turn in favorable earnings comparisons in the January-April period notwithstanding substantial flood damage suggests that full-year results could show considerable improvement over 1951. Higher freight rates generally became effective around May 1 and the latest award granted carriers in this region a nine per cent boost, compared with six per cent for the Eastern roads. Dieselization of motive power, and economic growth of the Northwest region—added to the more equitable rate structure — have perceptibly brightened prospects for the group. nevertheless, most of these rail issues are suitable only for investors who are in a position to assume above-average risks.