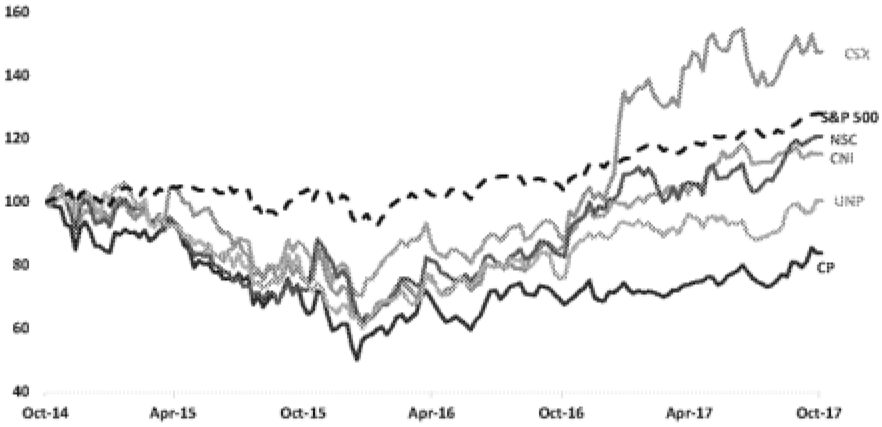
clear outperformer as investors anticipate significant margin improvement and an inflection in free cash flow.

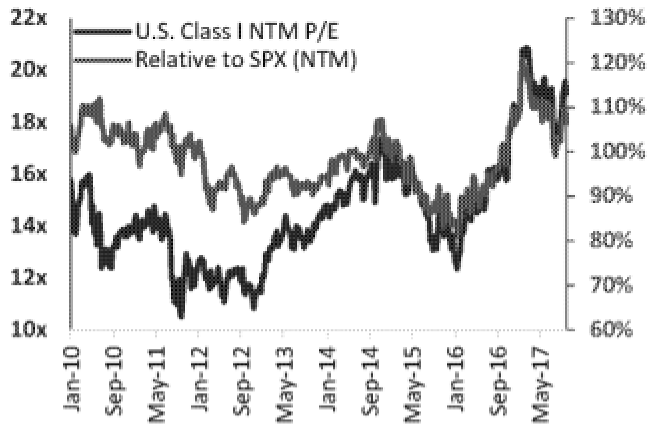
Figure 76: Railroads with more energy/coal exposure faired poorly in 2015



Source: Deutsche Bank, FactSet

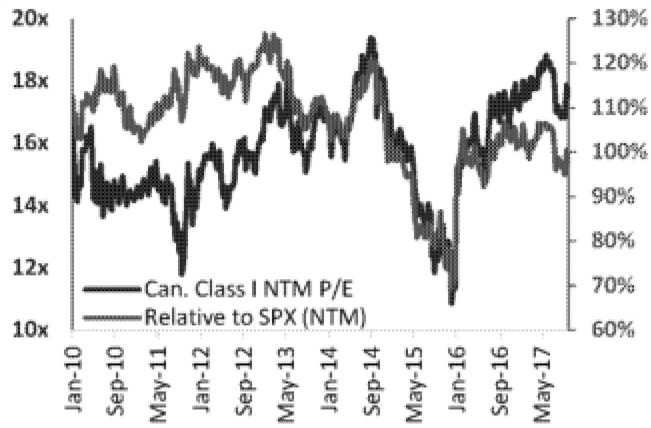
U.S. Class I rails (CP, NSC, UNP) currently trade on average at 19.3x NTM EPS, which is about a 30% premium to the average this decade (14.6x). Relative to the S&P 500, the U.S. Class I's are trading at 1.07x, which is a 9% premium to their historical average (0.98x). The relative premium makes sense, in our view, given the outsized benefit from potential tax reform that U.S. railroads would see compared to the rest of the S&P 500. Canadian Class I rails currently trade at 18.5x NTM EPS, translating to a 17% premium to the average this decade (15.8x). On a relative basis, however, the Canadian rails are trading at 1.02x the S&P 500, 4% below their historical average (1.07x).

Figure 77: U.S. Class I rail historical valuation



Source: Deutsche Bank, FactSet

Figure 78: Canadian rail historical valuation



Source: Deutsche Bank, FactSet