Does Canadian National Belong in Your Portfolio?

Description

Canadian National Railway (TSX: CNR) (NYSE: CNI), Canada's largest railway with 22,000 employees and 32,000 km of track in Canada and the U.S., has released a mixed bag of Q4 and year-end results.

In Q4, CN announced revenues of $2.8 billion, up 8% from 2012, and a net income of $635 million ($0.76 per share) up from $610 million ($0.71 per share) in 2012.

For year-end, revenues were $10.6 billion up from $9.9 billion in 2012, and brought in a net income of $2.6 billion ($3.09 per share). This is a decrease from $2.7 billion ($3.06 per share) last year, blamed partially on a 7% increase in operating expenses. CN has also seen its free cash flow drop to $1.6 billion from $1.7 billion in 2012. The company is still projecting its 2014 outlook of double-digit growth in earnings per share.

Dividend bump

Despite the decrease in income, CN announced a 16% dividend increase, bringing it to $0.25 per quarter. This is the 18th consecutive year that CN Rail has raised its dividend, and executives believe it is a sign of "confidence in the growth prospects of the company and out commitment to reward shareholders".

CN also announced that it has set aside $1.4 billion to buy up 30 million shares over the year.

The price of winter

With the cold winter taking its toll on the country, CN is not immune to its effects that have carried over into 2014. With increases such as extra labor costs, shorter trains and higher fuel consumption. The cost is expected to be around $15 million above normal operating expenses, because it never gets cold in Canada, right?

Oil boom

Much like its main competitor, **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), CN has seen a huge increase in the crude by rail sector. In Q4, CN shipped about 25,000 cars of crude oil, and it has shipped almost 75,000 in all of 2013. The increase in volume resulted in safety concerns from the public, although CN's safety record improved in 2013 by 9% to 33 main track accidents.

The boom in crude by oil has had some unintended consequences — with more of the railroad capacity taken up by oil, farmers and grain shippers were left behind. When 2013 brought forth record wheat and canola crops, CN and CP were unprepared and the resentment felt by farmers and shippers could carry over into 2014.

Foolish bottom line

Where Canadian Pacific has been able to cut its operating ratio, CN has seen its ratio rise to 64.8%, up 1.2% from 2012. The company's stock is sitting $2.00 below the 52-week high it hit in December and is now sitting at $59.63 up from $47.82 one year ago. Although CN has not seen the same type of blockbuster year that Canadian Pacific has, it is still posting solid growth numbers. The question is whether CN can learn from its mistakes in 2013 and make up the ground it has lost to its rival.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CNR (Canadian National Railway Company)
2. TSX:CP (Canadian Pacific Railway)

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Date
2025/09/06
Date Created
2014/02/03
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