How Canadian National Railway Grew Profits by 18%

Description

Just a couple of days ago I looked at **Canadian Pacific's** (TSX: CP)(NYSE: CP) last quarterly report to see if it had caught up to its rival. Now **Canadian National Railway** (TSX: CNR)(NYSE: CNI) has released its second-quarter results, once again entrenching itself as the country's top grossing railway.

How was Canadian National able to boost its number so dramatically, and what does this mean for investors?

The hard numbers

In terms of revenue, it earned $3.1 billion in the quarter, up from $2.6 billion in Q2 2013. Compare this to the $1.64 billion earned by Canadian Pacific during the same period last year. The big story is the rise in net income in the quarter, which came in at $847 million, up from $717 million during the same period last year — a whopping increase of 18%. Canadian National also beat analysts' expected earnings of $1.00 per share by posting $1.03, up by 24% from last year's EPS of $0.85. Although Canadian National did beat expectations, these numbers still lag behind its rival's earnings per share of $2.13.

Canadian National managed these gains despite spending $82 million more in fuel in the quarter and seeing its operating expenses increase by 14% to $1.8 billion. This is an area of concern as its competitor has been nipping its heels by drastically cutting its operating ratio from 71.9% to 65.1%.

Gains by sector

The company was able to post these double-digit growth numbers thanks to car loadings in the quarter increasing by 11% to 1.4 million. On a sector-by-sector basis, movement of metals and minerals jumped 20%, intermodal by 17%, petroleum and chemicals by 17%, automotive by 15%, forestry by 9%, and coal by 5%.

So much for grain pains

Last and most impressive of all was the 35% increase in the movement of grain and fertilizers during the quarter. Following a record crop this year that was locked down by poor weather and the general unpreparedness of the rail industry, this has finally reaped some rewards for the company.

Grain shipments from western Canada alone in the quarter spiked by 70%. The company is projecting a record year of grain shipments, which could extend into next summer. So much for all the trouble caused by farmers and the federal government forcing the railways to get the grain moving. This forced delivery has given it an opportunity to catch up to Canadian Pacific in terms of western grain movement. Grain shipments make up 16% of Canadian Pacific's total carload traffic, compared to Canadian National's 7.3%.

Following the good news, the company has revised its 2014 financial outlook, now expecting "solid double-digit" growth in terms of earnings per share. For context, it had a year-end EPS of $3.06 in 2013. It is also expecting to increase its free cash flow from a range of $1.6 billion-$1.7 billion to $1.8 billion-$2 billion.

The stock closed Tuesday at a new 52-week high of $74.83, compared to its 52-week low of $49.01 last August. With the second-quarter results released, analysts have been mixed in their price targets. **Bank of Nova Scotia** increased its target from $76 to $80, Desjardin increased its target from $73.00 to $79.00, and both TD Securities and Canaccord Genuity raised their target prices from $64.00 to $69.00.

CATEGORY

1. Investing

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