3 Big Reasons to Buy Canadian National Railway Company After Q3 Earnings

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) posted record revenue in its latest Q3 results while net earnings rose by 21%. Revenue and earnings fell slightly below analyst estimates, but overall the earnings were a positive and included some key changes that position the company for future success. Here are three reasons Canadian National Railway Company is poised for future gains.

1. Canadian dollar

A weaker Canadian dollar (particularly when compared to the U.S. dollar) in Q3 was a contributing factor to CN Rail's higher profits. The Canadian dollar remains depressed versus the U.S. greenback and just recently fell to a five-year low versus the U.S. dollar. In general it is better for Canadian companies that do a lot of business with the U.S., such as CN Rail, when the Canadian dollar is lower versus the U.S. dollar. In fact, it is better for Canada as a whole when the Canadian dollar is weaker than the currency of its southern neighbour and largest trading partner.

Historically, the Canadian government does what it can to keep its currency below the U.S. dollar; however, the U.S. central bank's massive quantitative easing programs embarked upon to stoke its ailing economy during the last recession made it extremely difficult for Canada to depreciate its currency and the Canadian dollar spent a few years on par or higher than the greenback. Now, however, the U.S. central bank completed its last monthly bond buying in October after months of tapering. This has already helped put the Canadian dollar below the U.S. dollar. Going forward, this should mean that the Canadian dollar can be held effectively below the U.S. dollar, a positive for CN Rail's business.

2. Improved operational efficiency

Following the grain loading disaster of 2012, in Q3 2013 CN Rail showed that it had learned from the challenge. In the recent quarter the company had to accommodate higher freight volume thanks in part to a record Canadian grain crop, and this went off without a hitch. Now investors can rest assured that the company is able to handle increased business when it presents itself.

In the latest quarter, CN Rail's operating ratio, which compares operating expenses to net sales and is a measure of efficiency, improved by 1% to an all-time low of 58.8%. What this reduced operating ratio means is that the company is now more effective at generating profit if revenues decrease. While there are no blaring reasons why revenues could decrease going forward for CN Rail, it's nice to know that if they do the company is in its best position in its history to generate a profit.

3. Share repurchase

Along with its earnings report CN Rail announced that it would repurchase up to 4% of its shares. This is a bullish signal because it shows that the company's management is confident in its business path and is in effect investing in itself and at the same time is returning cash to shareholders. But, this means that if you plan on purchasing CN Rail stock you might want to do it sooner rather than later. A share repurchase reduces the numbers of shares outstanding and thereby increases earning per share. This tends to increase the value of the current shares.

CATEGORY

1. Investing

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