5 Key Takeaways From Canadian National Railway Company's Q3 Report

Description

Canadian National Railway Company (TSX: CNR)(NYSE: CNI), Canada's largest rail network operator, announced third-quarter earnings on October 21 and its stock has responded by making a slight move to the downside. Let's take a look at the five most important factors from the report to decide if this weakness is a long-term buying opportunity or if it is a warning sign to stay away.

1. The results surpassed analysts' expectations

Here is a chart of what Canadian National Railway accomplished in the third quarter versus what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	$1.04	$1.03	$0.86
Revenue	$3.12 billion	$3.11 billion	$2.70 billion

Source: Financial Times.

2. Operating profit increased, but the operating margin contracted

Canadian National Railway's operating profit increased 4.9% to $967 million, but its operating margin contracted 120 basis points to 35.2% as a result of operating expenses rising 10.3%. In the first three quarters of fiscal 2014, operating profit increased 5.1% to $3,873 million and the operating margin contracted 50 basis points to 36.6% compared to the same period a year ago.

3. The company generated over $700 million in free cash flow

Canadian National Railway reported $1,328 million in net cash provided by operations and $620 million in capital expenditures in the third quarter, resulting in a very health $708 million in free cash flow. In the first nine months of fiscal 2014, the company generated approximately $1,896 million in free cash flow, which surpassed the $1,623 million that was generated in all of fiscal 2013.

4. The company returned more than $550 million to shareholders

During the third quarter, Canadian National Railway repurchased approximately $383 million worth of its common stock and paid out approximately $180 million in dividends. In the first nine months of fiscal 2014, the company has repurchased approximately $1,095 million worth of its common stock and has paid out approximately $616 million in dividends, which puts it on pace to surpass the $1,400 million in repurchases and $724 million in dividend payments that were reported in fiscal 2013.

5. The company reaffirmed its full-year outlook

As a result of its strong performance in the first nine months of fiscal 2014, Canadian National Railway reaffirmed its full-year outlook in its third-quarter report. This outlook calls for earnings per share growth in the double-digit percentage range compared to the $3.06 earned in fiscal 2013 and free cash flow in the range of $1.8 billion-$2.0 billion compared to the $1.62 billion that was reported in fiscal 2013.

Should you consider initiating a position today?

Canadian National Railway is one of the largest and most important transportation providers in Canada and the growing demand for its services led the company to a very strong financial performance in the third quarter. The company's stock has reacted by making a slight move to the downside, but I think this is a long-term buying opportunity. Investors should take a closer look, because the stock is now more than 8% below its 52-week high, trades at approximately 18 times forward earnings estimates, and has a very healthy dividend yield of about 1.3%.

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