Should Canadian National Railway Company Be Your Top Pick for 2015?

Description

Canadian National Railway Company (TSX: CNR)(NYSE: CNI) has chugged higher in each of the past three years and investors are wondering if the company will repeat the performance in 2015.

Let's take a look at the current situation to see if you should buy, hold, or sell the stock as we head into the new year.

Earnings growth

Canadian National Railway is enjoying growth in all of its core business units and that trend looks set to continue.

In the Q3 2014 earnings statement, Canadian National reported record net income of $853 million. This was a solid 21% year-over-year gain compared to the third quarter of 2013. Energy, grain, automotive, and intermodal customers all shipped more product.

Competitive advantage

The biggest advantage Canadian National has over its competitors is its vast rail network. The company is the only railway that can offer its customers access to three coasts.

Intermodal revenue

The movement of cargo from ships to inland destinations is know as intermodal transport. These long-haul routes have historically been dominated by trucking companies, but Canadian National has invested heavily in intermodal terminals along its network and is winning a lot of the business.

Truckers could start to claw back some of the lost contracts as lower diesel prices will make them more competitive, but Canadian National should continue to see strong intermodal growth.

Efficient operations

Canadian National remains North America's most efficient railway. In the third quarter, the company reported an operating efficiency ratio of 58.8%. This is an important metric for rail carriers because it essentially indicates the cost a railway has to incur to add one extra dollar of revenue. Anything under 60% is considered extremely good.

One reason Canadian National continues to lead the industry is its consistent investment in both its locomotives and rail network. The company added 60 new locomotives in 2014 and expects 120 more to join the fleet in the next two years.

Crude transport

The shares of Canadian National pulled back recently on concerns that the crash in oil prices would put a dent in the growth of the companies booming oil transport business. While demand for rail shipments will certainly slow down in some of the high-cost shale plays, Canadian National should continue to see huge growth in demand for crude-by-rail transport from Western Canadian producers.

Demand for sand by hydraulic fracturing operators will probably slow down in 2015, as many of the shale plays are unprofitable at current oil prices. Sand transport has been a nice revenue source for Canadian National in the past few years.

Share buybacks

Canadian National spent $1.4 billion to buy back more than 22 million shares during the 12-month period ending October 23, 2014. In the Q3 report, the company said it plans to repurchase another 28 million shares by October 23, 2015.

Risks

A labour dispute could threaten to disrupt operations in the coming months, but a strike is unlikely. New regulations that require safer oil cars and slower train speeds could have a negative impact on margins next year.

Should you buy?

The long-term outlook looks good for Canadian National Railway and any weakness in the stock should be seen as a buying opportunity. If you are looking to add more top sticks to your 2015 watch list, the following report is worth reading.

CATEGORY

1. Investing

TICKERS GLOBAL

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aswalker