



## Should You Buy Canadian National Railway Company?

### Description

**Canadian National Railway Company** ([TSX: CNR](#))([NYSE:CNI](#)), the largest rail network operator in Canada, released fourth-quarter earnings after the market closed on January 27 and its stock has responded by rising more than 1.5%. Let's break down the most important statistics from the report to determine if we should consider initiating long-term positions today or wait for the rally to subside.

### The better-than-expected results

Here's a summary of what CN Rail accomplished in the fourth quarter compared to what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$1.03	\$0.96	\$0.76
Revenue	\$3.21 billion	\$3.10 billion	\$2.75 billion

Source: *Financial Times*

CN Rail's earnings per share increased 35.5% and its revenue increased 16.8% compared to the fourth quarter of fiscal 2013, driven by net income increasing 32.9% to \$844 million and rail freight revenues increasing 16.7% to \$3.02 billion. The company also noted that total carloads increased 10.5% to 1.45 million during the quarter, and its revenue per carload increased 5.5% to \$2,082.

For the quarter, CN Rail's operating profit increased 30.3% to \$1.26 billion and its operating margin showed strength, expanding 410 basis points to 39.3%. These strong results can be attributed to total operating expenses increasing just 9.5%, including a 0.3% decline in expenses related to labor and fringe benefits, which was far outpaced by the company's 16.8% increase in revenue.

CN Rail generated \$1.14 billion in net cash provided by operating activities and it invested \$947 million in capital expenditures in the fourth quarter, resulting in \$188 million of free cash flow. The company used its \$188 million of free cash and the \$176 million in cash and cash equivalents on its balance sheet at the start of the quarter to repurchase approximately \$410 million worth of its common stock

and pay out \$202 million in dividends.

Also, CN Rail announced a 25% increase to its annual dividend to \$1.25 per share, and it added that the first quarterly installment of \$0.3125 per share will be paid on March 31 to shareholders of record at the close of business on March 10.

Lastly, CN Rail provided its outlook on fiscal 2015, calling for double-digit earnings per share growth over the \$3.76 earned in fiscal 2014. It is also worth noting that the company's outlook came in line with analysts' expectations, which currently call for earnings per share growth of approximately 13% to \$4.25.

### **Should you invest in Canadian National Railway today?**

Canadian National Railway is the largest rail network operator in Canada, and record volumes led it to a very strong fourth-quarter performance. The company's stock has responded to the earnings release by rising over 1.5% and I think this could be the start of a sustained rally higher, because it still trades at inexpensive valuations, including just 20.2 times analysts' earnings per share estimate of \$4.25 for fiscal 2015. In addition, the company now pays an annual dividend of \$1.25 per share, giving it a generous 1.5% yield at current levels.

With all of the information above in mind, I think Canadian National Railway represents one of the best long-term investment opportunities in the market today, so Foolish investors should strongly consider initiating positions.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

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