Should You Buy Canadian National Railway Company?

Description

It's been a wonderful run for **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and its shareholders. Over the past five years, the company's stock has earned a 26% return annually.

And the good times continued on Tuesday evening, with CN Rail reporting better-than expected results. Revenue of $3.21 billion was up more than 18% from last year, and beat estimates by $90 million. More importantly, earnings per share of $1.03 beat estimates by $0.06. As a bonus, the company boosted its dividend by 25%, which was once again more than expected.

So what have been the keys to CN Rail's success? And is now a good time to buy the stock? Below we take a look.

North America's best-in-class railroad

First of all, it's important to understand that CN has consistently been North America's most efficient railroad. The key measure here is the operating ratio, which measures operating expenses as a percentage of revenue. And over the past three years, CN Rail's operating ratio has averaged 62.7%, tops in the industry.

Better yet, CN has a better track network than any of its peers. It's the only network that reaches all three coasts — the West Coast, East Coast, and Gulf Coast. CN is able to avoid the congested Chicago hub, and can ship products farther and faster than rivals such as **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP). This advantage is particularly stark in the rapidly growing crude-by-rail business, where historically there has been a shortage of tank cars.

What slowdown?

That said, there are some big concerns for CN and its shareholders. CEO Claude Mongeau even acknowledged, "there's uncertainty out there," during the earnings conference call.

Of course the biggest worry is the decline in oil prices, which threatens to slow down the company's crude-by-rail business. But this business is still growing very quickly. In fact CN expects shipments to rise by 75,000 carloads in 2015, a gain of more than 34%.

Longer term, there are worries about a slowdown in the energy patch, especially if oil prices continue to stagnate. However, producers have shown no intention of cutting production, and I wouldn't expect output to shrink any time soon.

So how expensive is the stock?

If you want to buy CN, you won't get any discounts. Even after a good year, the company still only earned $3.76 per share in adjusted income. And its stock price (before Wednesday's open) trades at more than 22 times this number. As a result, the dividend still only yields 1.5%, even after the most recent dividend raise.

CN may still be worth owning. The company expects income to grow by double digits again this year, and you should expect further dividend increases as well. CN is a great company, with a fantastic track record and the best network.

CN also looks cheap when compared to CP, which trades at over 30 times earnings. CP doesn't have the same track network nor track record — CN is definitely the better option.

That said, there's another infrastructure player that's an even better buy than CN or CP. It's The Motley Fool's top stock pick for 2015. You can read about it in the free report below.

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