



Earnings Preview: What to Expect When Canadian National Railway Company Reports Next Week

Description

The **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is due up to report its quarterly earnings next week, and investors have high expectations for the transport giant. CN shot the lights out last quarter, delivering on just about everything shareholders could have hoped for: record profits, dividend hikes, and share buybacks.

The question now is whether the company can continue to crank out such spectacular results. Let's take an early look at what has been happening at CN over the past year and what we're likely to see in this upcoming report.

Stats on the Canadian National Railway

Analyst EPS Estimate	\$0.85
Change From Year-Ago EPS	29%
Revenue Estimate	\$3.03 billion
Change From Year-Ago Revenue	12.4%
Earnings Beats in Past Four Quarters	3

Source: Yahoo! Finance

What's next for the CN?

Analysts have been generally positive about CN's earnings in recent months, raising first-quarter estimates by a penny per share and adding four cents to their full-year projections. The stock has kept climbing, with gains of 6% since the start of 2015.

The railroad industry has received a lot of attention from investors lately, as shippers have benefited from the recovering economy. Last quarter, CN saw across-the-board gains from a number of segments—including petroleum, chemicals, grain, fertilizers, metals, and minerals—which all posted

sales growth of 20% or better. Even weak divisions like coal and forest products showed top-line gains in the mid-single-digit percentage range.

Management was happy with the results. As CEO Claude Mongeau summarized, “CN delivered a strong fourth-quarter 2014 performance, concluding a remarkable year characterized by brutal first-quarter winter weather, followed by a strong rebound starting in March and capped by record full-year freight volumes.”

CN executives have also been successful at capping costs. The company’s operating ratio—a good measure of management efficiency that is calculated by dividing operating expenses by revenues—came in at 60.7% during the quarter. That was down more than four percentage points from the same time a year prior and is one of the lowest in the industry.

For investors, that means more of the company’s revenues can be returned to shareholders. Indeed, CN is gushing so much cash that management boosted the dividend 25% last quarter. And over the past year, the company has bought back nearly \$1.5 billion of its own shares.

However, CN does face some headwinds. As a result of growing production and a shortage of pipeline capacity, railroads have become a key mover of energy products. But if oil prices remain low, the boom in crude-by-rail transport could come to an end.

Derailments are another concern. CN’s safety record deteriorated sharply last year and critics say their trains are running too long, too heavy, and too fast. That’s worrying for shareholders because the heightened cost of upgrading tank cars and railroad networks could eat into profits.

In CN’s earnings report, watch to see how the railroad’s various segments perform. If energy shipments remain robust, then the stock could keep chugging along.

CATEGORY

1. Investing

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