Is Canadian National Railway Company the Top Rail Stock to Buy Today?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), the largest rail network operator in Canada, has watched its stock underperform in the overall market in 2015, rising about 2.8% compared to the TSX Composite Index's return of about 5.2%, but it could fill the gap and widely outperform the overall market going forward. Let's take a look at four of the top reasons why this could happen and why you should consider buying shares today.

1. Double-digit earnings growth to support a higher stock price

On January 27 Canadian National released better-than-expected earnings results for its fiscal year ending in December 2014, but its stock has responded by falling over 3% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the annual report compared to the report a year ago:

1. Adjusted net income increased 19.9% to $3.1 billion
2. Adjusted diluted earnings per share increased 22.9% to $3.76
3. Revenue increased 14.7% to $12.13 billion
4. Rail freight revenues increased 15.1% to $11.46 billion
5. Total carloads increased 8.4% to 5.63 million
6. Revenue per carload increased 6.2% to $2,036
7. Operating profit increased 19.4% to $4.62 billion
8. Operating ratio improved 150 basis points to 61.9%
9. Free cash flow increased 36.8% to $2.22 billion
10. Total assets increased 5.4% to $31.79 billion

2. A very positive outlook for 2015

In its annual report, Canadian National also provided its outlook for fiscal 2015 and is calling for the following performance:

- Double-digit earnings growth over the fiscal 2014 adjusted diluted earnings per share of $3.76
- Carload growth in the range of 3-4% and pricing ahead of inflation

- Capital expenditures of approximately $2.6 billion, up $300 million from fiscal 2014

3. The stock trades at inexpensive current and forward valuations

At today's levels, Canadian National's stock trades at 21.9 times fiscal 2014's adjusted diluted earnings per share of $3.76, just 19.4 times fiscal 2015's estimated earnings per share of $4.23, and only 17.2 times fiscal 2016's estimated earnings per share of $4.79, all of which are inexpensive compared to its long-term growth rate.

I think Canadian National's stock could consistently command a fair multiple of at least 24, which would place its shares around $101.50 by the conclusion of fiscal 2015 and around $115 by the conclusion of fiscal 2016, representing upside of more than 23% and 39%, respectively, from current levels.

4. A dividend that is on the rise

Canadian National pays a quarterly dividend of $0.3125, or $1.25 per share annually, giving its stock a 1.5% yield at current levels. A 1.5% yield is not high by any means, but it is very important to note that the company has increased its annual dividend payment for 19 consecutive years, and its consistent free cash flow generation could allow this streak to continue on for many more years.

Should you be a long-term buyer of Canadian National today?

Canadian National Railway represents one of the best long-term investment opportunities in the market today. It has the support of double-digit earnings growth in fiscal 2014; its outlook on fiscal 2015 calls for another year of double-digit growth; its stock trades at inexpensive valuations; and it has shown a strong dedication to maximizing shareholder value through the payment of dividends. Foolish investors should take a closer look and strongly consider making Canadian National a core holding today.

CATEGORY

1. Investing

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