Is Canadian National Railway Company a Buy Today?

Description

Since its initial public offering in November 1995, **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) has grown from $2.25 per share to today's $80 per share, or an annual growth of 19.6%. In that same period, it made $8 billion worth of acquisitions so that its rails now reach the major markets of Canada and the United States.

About Canadian National Railway

Canadian National Railway is a rail industry leader with about 20,600 route-miles of track in North America, offering rail connections to three coasts. It operates the largest rail network in Canada and is the only transcontinental network in North America. It is a backbone of the economy, transporting about $250 billion worth of goods each year.

Its top five revenue sources make up about 82% of its revenues. Main revenue sources are from the following industries: intermodal (making up about 23% of revenue), petroleum & chemicals (18%), grain & fertilizers (16%), forest products (13%), and metals & minerals (12%).

Shareholder returns and dividend

For the last five years, as the economy rose back from the financial crisis, Canadian National outperformed the market. On the Toronto Stock Exchange, it returned 200% (with dividends reinvested), while on the New York Stock Exchange, it returned 174%. Comparatively, in the same period, the **S&P 500** returned 44%, and the **S&P/TSX** returned 105%.

Other than capital gains, Canadian National also rewards shareholders with a growing dividend. It has raised its dividends for 19 consecutive years, averaging an increase of 17% per year. In the past five-year period, it has consistently raised dividends between the rates of 14-16%.

Although Canadian National only pays out a low yield of 1.6%, its double-digit growth should increase the payout at a much faster pace than typical high-yielding stocks. For example, it increased its dividend by 25% at the beginning of this year.

At the same time, the company continues to buy back its shares, reducing the number of outstanding shares. So, even if shareholders don't buy more shares, their ownership in the company will still increase. In 2014 the rail leader repurchased 22.4 million shares. Its current program intends to buy back up to 28 million shares.

What to expect from Canadian National Railway

Due to the weaker-than-expected energy-related market, this month Canadian National reduced its forecast for energy-related shipments from 75,000 carloads to 40,000 carloads.

However, Canadian National still forecasts double-digit earnings growth for this year. Assuming that the company hits the low point of 10% earnings growth with its current payout ratio of 27%, and the company's willingness to increase the ratio to 35%, there's no reason the dividend shouldn't continue growing at a double-digit rate.

As the dividend grows, the share price will eventually follow.

Further, the low payout ratio allows the company to retain enough earnings to reinvest in the business. In fact, this year, Canadian National plans to reinvest $2.7 billion for safety, growth, and productivity.

At about $81, the company is trading at a price-to-earnings ratio of 20.6. For a high-growth company like Canadian National Railway Company, I believe it is fairly priced. Investors with a long-term view can opt into this high-growth company at today's price.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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