What Should You Do With Canadian National Railway Company Following its Recent Earnings Beat?

Description

Canadian National Railway Company (TSX: CNR)(NYSE:CNI), the largest rail network operator in Canada, released better-than-expected first-quarter earnings after the market closed on April 20, but its stock has responded by falling more than 3% in the trading sessions since. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should avoid the stock for the time being.

The better-than-expected quarterly results

Here's a summary of Canadian National's first-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.86	$0.84	$0.66
Revenue	$3.10 billion	$3.04 billion	$2.69 billion

Source: Financial Times

Canadian National's diluted earnings per share increased 30.3% and its revenue increased 15% compared with the first quarter of fiscal 2014. The company's very strong earnings per share growth can be attributed to adjusted net income increasing 27.8% to $704 million. Its solid revenue growth can be attributed to its total number of carloads increasing 9.2% to 1.35 million and its total revenue per carload increasing 5.9% to $2,203, which led to total rail freight revenues increasing 15.6% to $2.98 billion.

Here's a breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Gross ton miles increased 9.8% to 111.39 million
2. Revenue ton miles increased 7.1% to 57.13 million

3. Operating income increased 29.6% to $1.06 billion
4. Operating ratio improved 390 basis points to 65.7%
5. Net cash provided by operating activities increased 53.8% to $992 million
6. Free cash flow increased 5.5% to $521 million
7. Weighted-average diluted number of shares decreased 2% to 814.3 million
8. Reaffirmed its full-year outlook on fiscal 2015, calling for double-digit earnings per share growth versus fiscal 2014's diluted earnings per share of $3.76

Canadian National also announced that it would be maintaining its quarterly dividend of $0.3125 per share, and the next payment will come on June 30 to shareholders of record at the close of business on June 9.

Should you buy shares of Canadian National Railway today?

I think the post-earnings weakness in Canadian National's stock represents nothing more than a long-term buying opportunity. I think this because the stock trades at favourable forward valuations, including just 19 times fiscal 2015's estimated earnings per share of $4.25 and only 16.8 times fiscal 2016's estimated earnings per share of $4.79, both of which are inexpensive compared with the industry average price-to-earnings multiple of 26.5.

I think Canadian National's stock could consistently command a fair multiple of at least 24, which would place its shares around $102 by the conclusion of fiscal 2015 and around $115 by the conclusion of fiscal 2016, representing upside of more than 26% and 42%, respectively, from today's levels.

With all of the information provided above in mind, I think Canadian National represents one of the best long-term investment opportunities in the market today. All Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

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Date
2025/08/22
Date Created
2015/04/27
Author
jsolitro