Is This the Right Time to Buy Canadian National Railway Company?

Description

Canadian National Railway Company ([TSX:CNR](TSX:CNR))(NYSE:CNI) has all the characteristics of a great long-term holding and the recent pullback in the stock has investors wondering if they should hop on for the ride.

Let's take a look at the current situation to see if CN deserves to be in your portfolio.

Earnings

The profit train continues to chug along at CN. In its Q1 2015 earnings statement, the company reported earnings of $0.86 per share, a 30% year-over-year increase.

Overall revenues improved by 15% compared with the same period last year. Some of the gain is attributed to a weaker Canadian dollar, but most of the core operating segments also saw strong growth.

Revenues from the transport of grain and fertilizers increased 24%, forest products jumped 23%, metals and minerals were 22% higher, petroleum and chemicals rose 13%, and intermodal improved 11%. Coal shipments were the only weak spot, with revenues declining 13%.

The outlook for 2015 is still good, but the company has reeled in expectations for its energy-related shipments. CN expects crude oil and frac sand deliveries to increase by 40,000 carloads in 2015. This is down from a previous estimate of 75,000 announced in January.

Crop production in Canada and the U.S. this year is expected to be in line with historical trends.

Productivity improvements

In Q1 2015 CN lowered its operating ratio by 3.9 points to 65.7% from 69.6% the previous year.

The company continues to invest in operational improvements, with $2.7 billion earmarked for capital programs in 2015. In 2014 CN added 60 new locomotives to its fleet. An additional 120 are scheduled to go into service in the next two years.

Risks

New regulations announced by both U.S. and Canadian governments will put some pressure on margins in the short term. In the next three years rail companies are required to phase in safer tank cars for carrying crude oil.

Train speeds are also being reduced, but CN and its peers have already made adjustments to match the new requirements.

The slowdown in the oil industry is impacting the growth in crude-by-rail deliveries, but demand should continue to be robust. In the absence of major pipelines, oil producers will continue to use trains to ship their product.

Should you buy?

Long-term investors should be comfortable buying the stock. The company has a strong history of rewarding shareholders through higher dividends and share buybacks. In fact, the distribution just increased by 25% and CN is moving toward a 35% payout ratio, which should translate into continued dividend growth.

Canadian National Railway faces limited competition and the barriers to entry in the rail industry are as high as you’ll see in any business. The shares are not cheap, and more volatility should be expected, but it’s one of those stocks you can just buy and forget about until you retire.

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1. Investing

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1. Editor's Choice

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