Should You Buy Canadian National Railway Company Before its Earnings Report?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is reporting its second-quarter earnings results on Monday. Should you buy the railroad leader today? First, let's take a look at its business.

The business

Canadian National transports a portfolio of products, including products from these industries: intermodal, automotive, agriculture, coal, petroleum & chemicals, metals & minerals, and forest products.

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

It achieves the transportation demand with its rail network of 32,000 km of tracks, with Calgary as one of the central points that connects to 21,000 km of tracks.

If you decide to invest in Canadian National, then you aren't doing it for the income, but for the growth since Canadian National starts you off with only a 1.7% yield.

Sales growth, earnings growth, and valuation

From 2011 to 2014 Canadian National's sales grew, and especially showed promise in 2014 with double-digit growth. However, that growth is showing signs of slowing, for example, from the reduced demand of oil and coal transportation, which I see as a temporary detrimental factor.

Year	Sales Growth
2011	
2012	9.9%

2013	6.6%
2014	14.7%

Add the fact that the company trades at a multiple of over 18 around $74 per share. If earnings estimates aren't met, Canadian National's share price will likely decline.

The company's normal multiple is 17, which would indicate a share price of $70 by the end of 2015 with 10% earnings-per-share growth. That said, the railroad leader has rewarded shareholders with 19 years of increasing dividends. Only 15 Canadian companies have achieved that record.

Canadian National has an average dividend-growth rate of 14-16% in the past five years, which is amazing if you're looking to grow your income at triple the rate of inflation.

In conclusion

I'm not encouraging timing of the market, but around earnings report time, the market can get especially emotional about a company. Canadian National could go up or down 3% in one day.

Because Canadian National is a little expensive, investors should wait for a better price. However, investors that want to buy the company now can still act cautiously by buying half a position now and finishing off the position after the earnings report.

If you plan to buy $5,000 of Canadian National, you can buy $2,500 worth of it today, and buy more after the earnings report.

If the price goes up, it means the company is doing better than expected. If not, then you might be able to spend the same $2,500 and buy more shares at a lower price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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Date
2025/08/21
Date Created
2015/07/14
Author
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