



Is Canadian National Railway Company Headed Back Towards its 52-Week High?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)), the largest rail network operator in Canada, released second-quarter earnings results after the market closed on July 20, and its stock responded by rising over 2% in the trading session that followed. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for a better entry point in the trading sessions ahead.

The results that ignited the rally

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

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.15	\$1.05	\$1.03
Revenue	\$3.13 billion	\$3.13 billion	\$3.12 billion

Source: Bloomberg Business

Canadian National's adjusted earnings per share increased 11.7% and its revenue increased 0.3% compared with the second quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its adjusted net income increasing 9.6% to \$928 million, helped by its total operating expenses decreasing 5.1% to \$1.76 billion, as well as a \$64 million, or \$0.08 per share, gain on foreign currency translation from its U.S. dollar-denominated operations.

Its slight increase in revenue can be attributed to the aforementioned positive foreign currency translation and its revenue per carload increasing 2.9% to \$2,070, which more than offset a 3.3% decrease in the number of carloads to 1.41 million.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago

period:

1. Gross ton miles decreased 4.5% to 110.71 million
2. Revenue ton miles decreased 7.3% to 55.71 million
3. Operating income increased 8.3% to \$1.36 billion
4. Operating ratio improved 320 basis points to 56.4%
5. Net cash provided by operating activities decreased 5.5% to \$1.2 billion
6. Free cash flow decreased 31.7% to \$530 million
7. Weighted average number of diluted shares outstanding decreased 2.1% to 808 million
8. Reaffirmed its full-year outlook on fiscal 2015, calling for double-digit adjusted EPS growth compared with the \$3.76 earned in fiscal 2014

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

Should you buy shares of Canadian National Railway today?

It was a solid quarter overall for Canadian National, so I think its stock reacted correctly by rising over 2%. I also think this could be the start of a sustained rally back towards its 52-week high, which it currently sits more than 10% below, because its stock still trades at inexpensive forward valuations and because it is one of the top dividend-growth plays in the market today.

First, Canadian National's stock trades at 19.4 times fiscal 2015's estimated earnings per share of \$4.11 and 17.3 times fiscal 2016's estimated earnings per share of \$4.60, both of which are inexpensive compared with the industry average price-to-earnings multiple of 26.3.

Second, Canadian National pays an annual dividend of \$1.25 per share, which gives its stock a 1.6% yield at today's levels. A 1.6% yield may not seem impressive at first, 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 for the foreseeable future.

With all of this information in mind, I think Canadian National Railway represents one of the best long-term investment opportunities in the market. Foolish investors should strongly consider beginning to scale in to positions today.

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1. Dividend Stocks
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1. Editor's Choice

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Date

2025/08/22

Date Created

2015/07/22

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