Canadian National Railway Company: Is it Time to Hop on This Profit Train?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is catching a nice tailwind right now, and new investors are wondering if this is the right moment to start a position in the stock.

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

Earnings

CN reported Q2 2015 net income of $886 million, or $1.10 per share, up from $1.03 per share in the same quarter in 2014. Operating income increased 8% despite a 3% drop in carloadings and a 7% reduction in revenue ton-miles. Revenues for the quarter were essentially flat compared with Q2 2014.

The numbers came in slightly better than expected and investors really got a chance to see the importance of CN's diverse business segments as well as its U.S.-based revenue stream.

Revenues for automotive products increased 17% and forest products jumped 8%. This helped offset weakness in some of the commodity-related freight. Revenues for metals and minerals dropped 5%, grain and fertilizers slid 7%, and coal revenue plummeted 26%.

In the energy sector, the company saw decreased demand for the shipment of crude oil, frac sand, and drilling pipe.

Weak commodity markets have resulted in a drop in the Canadian dollar against its U.S. counterpart. CN gets a significant amount of its revenues in U.S. dollars and that had a positive Q2 impact of $64 million, or $0.08 per diluted share.

Efficiency

Management is doing a good job of controlling costs in the areas where it is seeing weaker demand. Operating expenses in the quarter dropped by 5% and the company's operating ratio for Q2 2015 came in at an impressive 56.4%, a 3.2-point improvement over the Q2 2014 number of 59.6%.

Dividends and share buybacks

CN pays a dividend of $1.25 per share that yields about 1.5%. Investors shouldn't be put off by the low yield because the company has a strong history of dividend growth. Management hiked the payout by 25% earlier this year and increased its target payout ratio to 35%.

CN also buys back a lot of shares. In the second quarter the company repurchased $404 million in stock.

Should you buy CN?

The company faces some economic headwinds in Canada, but the overall picture looks good. Management just reconfirmed its outlook for double-digit adjusted EPS growth in 2015 versus the $3.76 earned last year, and investors still have a chance to pick up the stock at a reasonable 17 times forward earnings.

If you are looking for a multi-decade investment that you can simply buy and forget about, CN is certainly a top choice.

CATEGORY

1. Investing

TICKERS GLOBAL

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