



## 3 Reasons to Make Canadian National Railway Company a Core Holding Today

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), the largest rail network operator in Canada, has watched its stock trade erratically in 2015, making just a slight move to the upside overall, but it has the potential to be one of the top performing stocks from this point forward. Let's take a look at three of the primary reasons why this could happen and why you should be a long-term buyer of the stock today.

#### 1. Its strong second-quarter earnings could support a continued rally

Canadian National announced strong second-quarter earnings results after the market closed on July 20, and its stock has responded by rising over 2.5% in the weeks since. Here's a breakdown of eight of the most notable statistics from the report compared with the same period a year ago:

1. Adjusted net income increased 9.6% to \$928 million
2. Adjusted earnings per share increased 11.7% to \$1.15
3. Revenue increased 0.3% to \$3.13 billion
4. Total carloads decreased 3.3% to 1.41 million
5. Revenue per carload increased 2.9% to \$2,070
6. Operating income increased 8.3% to \$1.36 billion
7. Operating ratio improved 320 basis points to 56.4%
8. Free cash flow decreased 31.7% to \$530 million

#### 2. Its stock trades at attractive forward valuations

At current levels, Canadian National's stock trades at just 19 times fiscal 2015's estimated earnings per share of \$4.21 and only 17.2 times fiscal 2016's estimated earnings per share of \$4.66, both of which are inexpensive compared with the industry average price-to-earnings multiple of 26.2.

I think Canadian National's stock could consistently command a fair multiple of at least 21, which would place its shares upwards of \$88 by the conclusion of fiscal 2015 and upwards of \$97 by the conclusion of fiscal 2016, representing upside of more than 9% and 21%, respectively, from today's levels.

### 3. It has increased its dividend for 19 consecutive years

Canadian National pays a quarterly dividend of \$0.3125, or \$1.25 per share annually, which gives its stock a 1.6% yield at current levels. A 1.6% yield may not seem like much at first glance, 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.

### Is now the time to add Canadian National to your portfolio?

I think Canadian National Railway Company represents one of the best long-term investment opportunities in the market today, because its strong second-quarter earnings results could support a continued rally, because its stock trades at inexpensive forward valuations, and because it has shown a strong dedication to maximizing shareholder value through annual dividend increases. All Foolish investors should take a closer look and strongly consider making it a core holding.

#### CATEGORY

1. Investing

#### TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

#### Category

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#### Author

jsolitro

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