



## Canadian National Railway Company: Should You Invest Now?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) has been a great builder of wealth over the past 20 years, but recent economic pressures have investors wondering if this is the right time to buy the stock.

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

### Earnings strength

CN reported Q2 2015 net income of \$886 million, a 5% increase over the same period last year. Operating income increased 8%, and adjusted diluted earnings per share rose 12%. For the full year the company is targeting double-digit earnings growth. For the first six months of 2015, CN generated free cash flow of \$1.05 billion.

Those are pretty solid numbers considering the economic headwinds facing Canadian commodity producers.

### Diversified revenue stream

The strong earnings can be attributed to CN's balanced revenue stream. As we all know, certain segments of the economy go through cycles, and that is certainly evident right now with CN's numbers.

The past few years have seen energy-related revenues skyrocket as producers turned to railways to move crude oil to refineries and ports. That line of business has slowed down in the past year, but it isn't going away.

Why?

Producers would prefer to ship their oil by pipeline, but there is a major bottleneck coming out of western Canada, and that situation is not likely to change in the near term. Politicians on both sides of the border are reticent to give big pipeline projects the green light, and that means CN's oil-transport business should remain steady. In fact, CN's petroleum and chemicals shipments for Q2 were pretty

much flat compared with 2014.

The company saw a strong Q2 decline in grain, fertilizer, and coal shipments as weak commodity markets have impacted demand for those goods. On the flip side, automotive and intermodal carloads increased compared with the second quarter last year.

### **Cost controls**

Managing expenses is the other side of the earnings equation. CN is highly regarded for its efficient operations and the company continues to reduce its cost structure. During the second quarter, CN's operating ratio came in at 56.4%, improving 3.2 points from the Q2 2014 ratio of 59.6%.

The metric is important because it indicates how much revenue the railway is using to run the business.

### **Dividends**

CN is an ATM machine and management does a good job of making sure a good portion of free cash flow goes into the pockets of investors. The company increased the quarterly dividend by 25% earlier this year to \$0.3125 per share, and is moving toward a payout ratio of 35%.

### **Risks**

The business is chugging along just fine, but there are some near-term risks that investors should keep in mind.

Coal markets remain in a broad secular decline and energy is still weak, although the bottom might be in for the sector.

### **Should you buy?**

CN is a great long-term bet. The stock isn't as cheap as it was in late August, but investors can still pick it up for a reasonable 16.5 times forward earnings. There are few companies you can buy and comfortably forget about for decades. CN is one of them.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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