



Canadian National Railway Company Drives Another Strong Quarter

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)), the largest rail network operator in Canada, released better-than-expected third-quarter earnings results after the market closed on October 27. Let's take a closer look at the quarterly results and the fundamentals of its stock to determine if we should consider initiating long-term positions today, or if we should wait for a better entry point in the trading sessions ahead.

Surpassing analysts' expectations with ease

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

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	\$1.26	\$1.14	\$1.04
Revenue	\$3.22 billion	\$3.20 billion	\$3.12 billion

Source: Thomson Reuters Corp.

Canadian National's adjusted diluted earnings per share increased 21.2% and its revenue increased 3.3% compared with the third quarter of fiscal 2014. Its very strong earnings-per-share growth can be attributed to three primary factors. First, its adjusted net income increased 18.1% to \$1.01 billion. Second, its weighted-average number of diluted shares outstanding decreased 2.3% to 801.9 million. Third, it reported a \$107 million, or \$0.13 per share, gain on foreign currency translation from its U.S. dollar-denominated operations.

Its slight revenue growth can be attributed to the aforementioned positive foreign currency translation as well as a 9.2% increase in its rail freight revenue per carload to \$2,162, which helped offset a 5.6% decline in the number of carloads transported to 1.39 million.

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

period:

1. Rail freight revenues increased 3.1% to \$3.01 billion
2. Operating income increased 15.6% to \$1.49 billion
3. Operating ratio improved 500 basis points to a record 53.8%
4. Free cash flow decreased 11% to \$690 million
5. Total assets increased 13.1% to \$35.82 billion

Canadian National also made three very important announcements.

First, it reaffirmed its full-year outlook on fiscal 2015, calling for double-digit earnings-per-share growth compared to the adjusted \$3.76 earned in fiscal 2014.

Second, it will be maintaining its quarterly dividend of \$0.3125 per share, and the next payment will come on December 31 to shareholders of record at the close of business on December 10.

Third, it announced a new share-repurchase program, in which it will repurchase up to 33 million shares of its common stock from October 30, 2015 to October 29, 2016, and this represents approximately 4.9% of its total shares outstanding as of October 16, 2015.

Should you buy Canadian National Railway today?

It was a phenomenal quarter overall for Canadian National Railway, so I think its stock will respond by moving higher. I also think it represents one of the best long-term investment opportunities in the market, because its stock trades at very inexpensive valuations, because it has been actively repurchasing its shares, and because it is one of the top dividend-growth plays around.

First, Canadian National's stock trades at just 18.7 times fiscal 2015's estimated earnings per share of \$4.25 and only 17.1 times fiscal 2016's estimated earnings per share of \$4.65, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 19.7 and its industry average multiple of 23.2, and the latter of which is inexpensive compared to its five-year average multiple of 17.4.

I think the company's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of \$93 by the conclusion of fiscal 2016, representing upside of about 17% from its closing price of \$79.51 on October 27. This projection is also very reasonable when you consider that it is just 4.6% higher than its current 52-week high of \$88.89, which it reached back on February 19.

Second, Canadian National has been actively repurchasing its shares, including the repurchase of 5.5 million shares in the third quarter for a total cost of approximately \$417 million and 16.2 million shares in the first nine months of fiscal 2015 for a total cost of approximately \$1.25 billion, and this will continue to play a major role in its earnings-per-share growth going forward.

Third, Canadian National pays an annual dividend of \$1.25 per share, giving its stock a 1.6% yield. A 1.6% yield may not peak your interest at first, but it is very important to note that the company has raised its annual dividend payment for 19 consecutive years, and its ample free cash flow generation, including \$1.74 billion in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

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

CATEGORY

1. Investing

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