Does Canadian National Railway Company Belong in Your Portfolio?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) has delivered fantastic returns for nearly 20 years.

The stock has taken a bit of a breather in 2015, and investors are wondering if this a good time to start a position in the name.

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

Earnings diversity

CN reported Q3 net income of $1 billion, an 18% increase over the same period last year. Operating income rose 16% to $1.48 billion, and the company delivered diluted earnings of $1.26 per share, up a solid 21%.

The numbers are impressive and can be attributed to the company's diversified revenue mix.

CN is literally the backbone of the economy; it has a rail network that runs from the Pacific to the Atlantic across Canada and straight through the heart of the U.S. to the Gulf coast.

A significant part of CN's earnings originate in the U.S., and those funds translate into nice gains when converted to Canadian dollars. The company also serves a broad variety of business segments. When one area is suffering, such as energy, others tend to pick up the slack.

For example, the oil rout has driven down the value of the Canadian dollar. That makes U.S. earnings more valuable, but it also helps boost sales for the Canadian automotive and forestry industries, and those segments just delivered strong year-over-year Q3 revenue gains.

Oil concerns

Much of CN's profit growth over the past few years has come on the back of a surge in crude transport.

The slowdown in the energy sector is definitely hitting demand for shipments of drilling pipe, frac sand,

and some conventional oil output, but the oil-by-rail business is not going to disappear.

Western Canadian oil sands producers are still hampered by pipeline bottlenecks. President Obama has refused to allow Keystone XL to be built on his watch, and the Trudeau government just announced a ban on crude oil tankers in northern B.C., which essentially drives the nail in the coffin for the Northern Gateway pipeline project.

That leaves Energy East as the last remaining option to get significant quantities of western Canadian oil to the coast. For the moment, there isn't much political support for that pipeline either.

Oil by rail is here to stay, and once the market recovers, this segment of CN's business should take off again.

Efficiency

CN delivered a Q3 operating ratio of 53.8%, down five points from the same period last year. A low number is desirable because it indicates the amount of revenue the company is using to operate the business.

Lower costs translate into higher margins and better profits.

Dividend growth

CN raised its dividend by 25% earlier this year, and investors should see another solid hike in 2016. The company is planning to increase its payout ratio to 35%, while still spending copious amounts of cash on share buybacks.

The verdict

CN is a great stock for buy-and-hold investors. If you have a bit of cash sitting on the sidelines, this is one name that deserves serious consideration.

CATEGORY

1. Investing

TICKERS GLOBAL

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Date
2025/08/21
Date Created
2015/11/17
Author
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