4 Reasons Why Canadian National Railway Company Is a Strong Buy

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), the largest rail network operator in Canada, has watched its stock post a disappointing performance so far in 2015. It has fallen a little over 1%, but I think it will pare these losses and head significantly higher over the next several years. Let's take a look at four of the primary reasons why I think this will happen and why you should buy the stock today.

1. Its strong earnings results could support a rally

On October 27, Canadian National released very strong earnings results for its three- and nine-month periods ending on September 30, 2015, but its stock has responded by making a slight move lower in the weeks since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the first nine months of fiscal 2014:

1. Adjusted net income increased 17.2% to $2.64 billion
2. Adjusted diluted earnings per share increased 19.9% to $3.26
3. Total revenues increased 5.8% to $9.45 billion
4. Total carloads decreased 0.4% to 4.16 million
5. Total rail freight revenue per carload increased 6.1% to $2,144
6. Operating income increased 16.3% to $3.91 billion
7. Operating ratio improved 370 basis points to 58.6%
8. Net cash provided by operating activities increased 18.5% to $3.85 billion
9. Free cash flow decreased 14.9% to $1.74 billion
10. Repurchased 16.2 million shares of its common stock for a total cost of approximately $1.25 billion

2. Its stock trades at inexpensive forward valuations

At today's levels, Canadian National's stock trades at just 18.1 times fiscal 2015's estimated earnings per share of $4.37 and only 16.8 times fiscal 2016's estimated earnings per share of $4.72, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 18.6 and the industry average multiple of 22, and the latter of which is inexpensive compared with its five-year average multiple of 17.5.

With its average multiples and its 8.9% long-term growth rate in mind, I think Canadian National's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $94 by the conclusion of fiscal 2016, representing upside of more than 18% from current levels.

3. It has been repurchasing its shares

Canadian National has been actively repurchasing its shares over the last few years, including 27.6 million shares for a total cost of approximately $1.4 billion in fiscal 2013, 22.4 million shares for a total cost of approximately $1.51 billion in fiscal 2014, and 16.2 million shares for a total cost of approximately $1.25 billion in the first nine months of fiscal 2015.

It also began a new share-repurchase program on October 30, which was approved by its board of directors on October 27. The program will allow Canadian National to repurchase up to 33 million shares, or 4.9% of its total public float, through October 29, 2016.

This repurchase activity will boost the company's earnings-per-share growth potential going forward and make its remaining shares more valuable than ever before.

4. It is one of the market's top dividend-growth plays

Canadian National pays a quarterly dividend of $0.3125, or $1.25 per share annually, giving its stock a 1.6% yield. This yield may not impress you at first, but it is very important to factor in that it has raised its annual dividend payment for 19 consecutive years, making it one of the top dividend-growth plays in the market, and its ample free cash flow generation could allow this streak to continue in 2016.

Is there a place for Canadian National in your portfolio?

Canadian National Railway has not performed well so far in 2015, but it has the potential to widely outperform the overall market going forward, so all Foolish investors should strongly consider beginning to scale in to long-term positions today.

CATEGORY

1. Investing

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