



## Should Investors Buy Canadian National Railway Company Today?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) holds an anchor position in many portfolios, and new investors are wondering if the recent pullback is a good opportunity to buy the stock.

Let's take a look at the current situation to see if CN should be a top pick right now.

### Earnings strength

CN delivered Q3 2015 net income of \$1 billion, up a solid 18% from the same period in 2014. Operating income increased 16% to \$1.48 billion and diluted earnings per share jumped 21% to \$1.26.

These are impressive numbers given the headwinds facing the rail industry, but the good results aren't a surprise.

Why?

CN gets its revenue from a wide variety of customers operating in many sectors of the economy.

The oil rout has put some pressure on CN's energy-related revenues, but the resulting plunge in the Canadian dollar is driving strong forestry and automotive shipments. CN also originates a significant part of its revenue in the U.S. and every American dollar in earnings now converts into CAD\$1.35.

### Efficiency gains

CN is one of the best railways on the continent when it comes to efficiency. The company reported a Q3 operating ratio of 53.8%, five points lower than the same period last year. A low number is better because it indicates the amount of revenue the company is using to run the business.

### Dividend growth

CN doesn't show up on most dividend screens because the payout only yields 1.7%, but this company is a dividend-growth champion. The current quarterly payout is \$0.3125 per share. Five years ago it was just \$0.135 per share.

Management increased the distribution by 25% in early 2015, and investors should see further increases in the coming years as free cash flow rises and the company moves toward a higher payout ratio of 35%.

### **Share buybacks**

CN buys back a lot of its stock, which is another way of returning cash to shareholders. In the first nine months of 2015 CN spent \$1.25 billion to repurchase 16.2 million shares.

### **Should you buy?**

The stock is trading near its 12-month low and is close to its average P/E multiple for the past five years. The shares could certainly fall further in the near term, but CN is one of those names you simply buy and hold for decades. At this point the stock looks reasonably priced and investors with a long-term outlook should consider adding it to their portfolios.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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