Dividend Investors: Should You Own Canadian National Railway Company in 2016?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) has had a great run since the financial crisis, but the stock has been pretty much flat for 2015, and investors are wondering what to expect next year.

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

Earnings

A boom in energy-related business is behind much of CN's big stock gain since the Great Recession. The crash in oil prices has impacted that gravy train over the past year, but CN is still moving a significant amount of oil, and the lack of major pipelines means this revenue source isn't likely to dry up.

Despite the energy pains, CN delivered very strong Q3 2015 results. Net income came in at $1 billion, up 18% from the third quarter of 2016. Operating income rose 16% and diluted earnings per share increased by 21%.

The oil industry is certainly struggling, but the rout is having a positive impact on other areas of CN's business, mostly due to the much weaker Canadian dollar.

With the greenback now worth CAD$1.38, CN is seeing strong demand for forestry and automotive shipments. The bottom line also gets a nice boost when earnings that originate south of the border are converted to Canadian dollars.

Operating efficiency

CN is often cited as the best-run railway in North America. Management does a great job of controlling costs and investments in modern locomotives have helped reduce operating expenses.

The company's Q3 operating ratio came in at just 53.8%, down five points from the same period last year. A low number is preferable because the metric indicates the amount of revenue the company is using to operate the business.

Dividends and share buybacks

CN's dividend only yields about 1.6%, but the company is a great dividend-growth stock. Management raised the payout by 25% last year and increased the target payout ratio from 25% to 35%.

Investors should see another boost to the payout in 2016.

CN also rewards investors through its aggressive share-repurchase program. Every time the company buys back a share and cancels it, the remaining stockholders are left with a bigger piece of the pie. In the first nine months of 2015, CN spent $1.25 billion to repurchase and cancel 16.2 million shares.

Outlook for 2016

The energy sector could continue to struggle through 2016, but the other areas of CN's business should perform well. If the winter weather remains mild, Q1 results could come in better than expected. The company generates a ton of free cash flow, so investors might see another large dividend increase in the coming months.

Should you buy CN?

CN is the type of company you want to own for decades. The stock is not as cheap as it was two weeks ago, but is still down from the 12-month high. Dividend investors with a buy-and-hold strategy should be comfortable owning the stock at the current level.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/22
Date Created

2015/12/29
Author
aswalker