



## Canadian National Railway Company's Q4 EPS Rises 14.6%: Should You Buy Now?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), the largest rail network operator in Canada, released mixed fourth-quarter earnings results after the market closed on January 26, and its stock has reacted by making a slight move higher.

Let's break down the quarterly results, two important announcements made by the company, and the fundamentals of its stock to determine if it could head higher from here and if we should consider initiating positions today.

### Breaking down the fourth-quarter results

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Earnings Per Share	\$1.18	\$1.11	\$1.03
Revenue	\$3.17 billion	\$3.22 billion	\$3.21 billion

*Source: Financial Times*

Canadian National's diluted earnings per share increased 14.6% and its revenue decreased 1.3% compared with the fourth quarter of fiscal 2014. Its double-digit percentage increase in earnings per share can be attributed to its net income increasing 11.5% to \$941 million, helped by an \$87 million gain on foreign currency translation and its weighted-average number of diluted shares outstanding decreasing 2.5% to 796.3 million.

Its slight decline in revenue can be attributed to its total carloads decreasing 8.5% to 1.33 million, and this weakness could only be partially offset by its revenue per carload increasing 8.3% to \$2,254.

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

period:

1. Rail freight revenues decreased 0.9% to \$2.99 billion
2. Operating income increased 7.5% to \$1.35 billion
3. Operating ratio improved 350 basis points to 57.2%
4. Income before income taxes increased 6.1% to \$1.25 billion
5. Net cash provided by operating activities increased 13.9% to \$1.29 billion
6. Free cash flow increased 261.1% to \$632 million

### **Other notable announcements**

Canadian National also made two important announcements.

First, it announced a 20% increase to its quarterly dividend to \$0.375 per share, and the next payment will come on March 31 to shareholders of record at the close of business on March 10.

Second, it announced its outlook on fiscal 2016, calling for mid-single digit earnings-per-share growth over the adjusted \$4.44 earned in fiscal 2015.

### **What should you do with Canadian National Railway's stock?**

It was a good quarter overall for Canadian National given the many headwinds it faced, and its dividend hike was a major positive, so I think the slight post-earnings pop in its stock is warranted. With this being said, I think the stock represents a very attractive long-term investment opportunity for two primary reasons.

First, even after the slight pop, Canadian National's stock trades at just 16.3 times fiscal 2015's adjusted earnings per share of \$4.44 and only 14.3 times fiscal 2016's estimated earnings per share of \$5.06, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.6 and the industry average multiple of 19.3.

With the multiples above, its estimated 10% long-term earnings growth rate, and the many headwinds facing the rail industry in mind, I think Canadian National's stock could consistently trade at a fair multiple of about 18, which would place its shares upwards of \$91 by the conclusion of fiscal 2016, representing upside of more than 25% from today's levels.

Second, Canadian National now pays an annual dividend of \$1.50 per share, which gives its stock a solid and very safe 2.1% yield. It is also very important for investors to note that the 20% hike the company just announced makes 2016 the 20th consecutive year in which it has raised its annual dividend payment, making it one of the market's top dividend-growth plays.

With all of the information above in mind, I think Canadian National Railway represents one of the most attractive long-term investment options in the market. All Foolish investors should strongly consider making it a core holding.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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