4 Compelling Reasons to Buy Canadian National Railway Company

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is the largest rail network operator in Canada and its stock has taken a beating over the last year, falling more than 13%, but I think it will pare these losses and head significantly higher going forward. Let's take a look at four reasons why I think this will happen, so you can determine if you should be a buyer of the stock today.

1. Its record earnings results in 2015 could support a continued rally

On January 26 Canadian National released record financial results for its fiscal year ended on December 31, 2015, and its stock has responded by rising over 5% in the weeks since. Here's a quick breakdown of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 15.7% to a record $3.58 billion
2. Adjusted diluted earnings per share increased 18.1% to a record $4.44
3. Total revenues increased 3.9% to $12.61 billion
4. Total carloads decreased 2.5% to 5.49 million
5. Total rail freight revenue per carload increased 6.6% to $2,170
6. Operating income increased 13.9% to $5.27 billion
7. Operating ratio improved 370 basis points to 58.2%
8. Net cash provided by operating activities increased 17.3% to $5.14 billion
9. Free cash flow increased 6.9% to a record $2.37 billion
10. Total assets increased 14.9% to $36.4 billion

2. It's undervalued based on both current and forward valuations

At today's levels, Canadian National's stock trades at just 16.9 times fiscal 2015's adjusted earnings per share of $4.44, only 16.1 times fiscal 2016's estimated earnings per share of $4.67, and a mere 14.8 times fiscal 2017's estimated earnings per share of $5.07, all of which are inexpensive compared with its five-year average multiple of 17.6 and the industry average multiple of 18.4.

With the multiples above and its estimated 7.8% long-term earnings growth rate in mind, I think Canadian National's stock could consistently command a fair multiple of about 18, which would place its shares upwards of $84 by the conclusion of fiscal 2016 and upwards of $91 by the conclusion of fiscal 2017, representing upside of more than 11% and 21%, respectively, from today's levels.

3. It has been accelerating its share-repurchase activity

Canadian National has been increasing the amount of capital it allocates to share repurchases over the last few years, allowing it to repurchase 27.6 million shares for a total cost of $1.4 billion in fiscal 2013, 22.4 million shares for a total cost of $1.51 billion in fiscal 2014, and 23.3 million shares for a total cost of $1.75 billion in fiscal 2015.

I think the company's record amount of free cash flow will allow it to increase its repurchases again in fiscal 2016, showing that it is fully dedicated to maximizing shareholder value and helping boost its earnings-per-share growth potential going forward.

4. It is a dividend-growth superstar

Canadian National pays a quarterly dividend of $0.375 per share, or $1.50 per share annually, which gives its stock a 2% yield. At first glance, this 2% yield may not seem like a legitimate reason for buying the stock, but it is very important for investors to note that the company has raised its annual dividend payment every year since it began paying one in 1996, resulting in 19 consecutive years of increases, and its 20% hike on January 26 has it on pace for 2016 to mark the 20th consecutive year with an increase.

Does Canadian National Railway belong in your portfolio?

I think Canadian National Railway is a strong buy and will outperform the overall market going forward, so Foolish investors should take a closer look and strongly consider making it a core holding.

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1. Investing

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1. Editor's Choice

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