



Is Canadian National Railway Company a Good Investment?

Description

Railroads have long been considered some of the safest and best investments to make, thanks in part to the massive infrastructure requirements that prohibit new competitors from entering the market, as well as the strict regulations in place to prevent mergers between railroads.

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) is the largest railroad operator in the country with a massive 32,000 km network that spans three different coasts and has over 20 intermodals situated across the network.

Canadian National recently reported quarterly results that in some respects came in lower than expected, prompting many investors to question if the company (and perhaps even the railroad industry) is still a viable investment. Here's a look at those results and what investors should be concerned about.

Latest quarterly results

In the most recent quarter Canadian National posted net income of \$858 million—a 3% drop over the \$886 million posted for the same quarter last year. Diluted earnings per share remained relatively unchanged at \$1.10. Adjusted diluted earnings per share saw a 3% decrease from the \$1.15 posted last year, coming in at \$1.11.

Operating income dropped 5% for the quarter, coming in at \$1,293 million. Overall, revenues decreased by 9%, settling to \$2,842 million. The weak results were also reflected by the 12% decrease in carloads, which came in at just 1.25 million for the quarter.

Revenues were not the only figures to show a decrease, as operating expenses declined by 12% for the quarter, coming in at \$1,549 million.

Share buyback and debt refinancing

Canadian National recently announced the intention to raise \$650 million in new debt, taking full advantage of the low interest rates that are common in the market now. The funds will be used to

refinance existing debt the railroad holds as well as continue the \$2 billion share-buyback program the company has running through October.

Railroads across the continent have been hit with reduced freight loads over the past few quarters; decreasing oil prices, a reduction in coal shipments, and even the fire this past spring in Fort McMurray are to blame for the reduction.

There's no doubt that refinancing some of the company's existing debt will help the bottom line in subsequent quarters as the new notes will be due in 2046 and have a rate of just 3.2%.

Another way in which Canadian National and other railroads have been dealing with the reduction in shipments has been to exercise stricter controls on costs and strive to improve efficiency. With respect to efficiency, Canadian National made significant headway this past quarter; the railroad proudly proclaimed an operating ratio of 54.5%—an industry best and an improvement over the 56.4% ratio the railroad reported during the same quarter last year.

Overall, Canadian National (and the railroad industry by extension) is emerging from what was a very challenging quarter. Despite the weak results, the fact that the company was able to improve the operating ratio and decrease expenses speaks volumes.

Canadian National still maintains the current guidance for the year (diluted earnings per share of \$4.44) with good reason. Grain crops for the year are forecasted to be much stronger than expected, and lumber, automotive, and refined petroleum products are expected to have strong demand.

In my opinion, Canadian National remains a great investment option, particularly for long-term investors as well as those seeking dividend income. Investors should see the current results as only a temporary lull from which the company will emerge in the next few quarters.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:CNR (Canadian National Railway Company)

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