Is it Time to Buy Canadian National Railway Company?

Description

There are many ways to make money on the stock market, such as the frantic day trading that will give you constant heartburn, or the buy-and-hold-forever strategy. The former is like being on drugs; you have crazy highs, but terrible crashes. The latter strategy is calm, smooth, and, if you can be patient, oftentimes very rewarding.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is one company that I believe personifies the buy-and-hold strategy. As one of North America's largest railroads (and the only one that can touch the Atlantic and Pacific oceans, plus the Gulf of Mexico), it acts as a barometre of the economy and provides ample opportunity for long-term growth. It's because of this that so many big investors invest in railroads and why you should, too.

Canadian National is actually doing a rather good job. In its Q3 2016 earnings report, it clobbered analyst expectations. The company brought in $3.01 billion in revenue, which was $660 million more than what analysts had expected. And it had an earnings per share of $1.25, while analysts expected it to be $0.91. I guess analysts didn't read the barometre right this time.

The big reason it has been able to generate such significant earnings is because it is an operational juggernaut. It has led the industry in operating margins for over 15 years. This means the amount of money it has to spend to generate $1 of revenue is less than any other major North American railroad. Naturally, this puts it in a solid position to generate greater income. At 53.3%, it continues to get better.

And here's why … its gross tonne miles increased by 7% to 9,239 in the first half of 2016 compared with the first half of 2015. And its car velocity, which is the number of car miles traveled per day, increased by 10% to 235. Finally, its yard productivity (cars per yard-switching hour) improved from 46 to 49 year over year. In other words, the trains are moving faster, carrying more, and unloading faster. That's a recipe for increased profits.

But what about the future?

Revenues have been slowing for the company and, if it weren't for its improved operating ratio, profits might have started dropping. Management sees a number of positive signs pointing to growth going into 2017. The U.S. housing market is driving growth in lumber, steel, and iron ore. With potash prices bottoming, it expects to start shipping more potash throughout the rest of the year. And Canadian grain is expected to have a stronger season.

And while the company continues to invest in becoming more efficient, investors can rest easy knowing they are getting a consistent 1.78% yield. It might not look like it, but Canadian National is actually a dividend-growth stock. Earlier this year it increased the dividend by 20%. Last year, it increased it by 25%. So long as free cash flow continues to grow, I expect the current $0.375 per share dividend to continue getting stronger.

I believe the time is right to buy Canadian National. It is a bit expensive, but I believe the pros far outweigh the price considering you should be holding this stock for five to 10 years, if not more.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/08/23
Date Created
2016/10/31
Author
jaycodon