



Hold Canadian National Railway Company for Now

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) is a good stock to stick with, but don't up your stake on the company just yet.

The railway services provider has some upside, including a portfolio that is more diversified and has a superior operating ratio than competitors such as **Canadian Pacific Railway Limited**. Canadian National is not as dependent on a couple of products like its rival, and it's capable of avoiding one of the busiest hubs in the U.S.

The company is able to avoid Chicago, which is quite congested and one of the hubs that Canadian Pacific depends on. Additionally, Canadian National reaches three coasts in North America, while its rival only touches two. The Montreal-based company is also quicker and more effective, delivering a wider array of goods in a faster period of time.

However, there are some negatives that should raise investor concern at the beginning of the new year. The company's fiscal third-quarter report revealed profit that failed to live up to the year-ago quarter's figures. There were lower freight volumes of crude, coal, and intermodal. These results were mixed as the company's productivity and costs were higher.

Revenue was lower than expected at \$3.01 billion, coming in \$70 million below estimates and slipping 6% year over year. Its operating ratio was stronger at 53.3% — better than the previous figure of 53.8%. A delay in the delivery of grain harvest and lower commodity prices hurt the company's shipping volumes. For the full year 2016, Canadian National expects adjusted diluted earnings per share to rise 1%.

Earnings per share were 2% lower year over year, and the company's weaknesses are further highlighted by a decline in its top-line growth. Cutting costs helps Canadian National move in the right direction, but the company is still overvalued by 40%. Canadian National is worth about \$54, or 40% below the \$90 share price on the Toronto Stock Exchange.

The last 12 months have left something to be desired as the company raked in \$12 billion between September 2015 and September 2016. Canadian National has also been hit hard by an overall decline

in the industry's rail traffic. This slump means that the company will struggle to reach its financial targets in the coming months and years.

There are 13 analysts covering CNR stock, and eight of them have rated it a "Hold" for a consensus rating of a "Hold." Additionally, four have a more optimistic view on Canadian National, rating it a "Buy," while one analyst recommends you sell it. CNR shares began the year declining 1.1% before gaining 0.5% on Jan. 4.

The price target on the stock is \$90.08 on an average basis. Canadian National recently disclosed a quarterly dividend that was paid on Dec. 30, netting investors \$0.375 per share, representing a \$1.50 dividend on annualized basis and a yield of 1.68%.

Overall, the company has some momentum following a quarter of mixed results, but a weaker industry for railway companies as well as the overvaluation of the company are reasons to hold on to the stock for now instead of buying.

CATEGORY

1. Investing

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1. Editor's Choice

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