Canadian National Railway Company Is a Buy After Earnings Beat

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is one of the best dividend-growth stocks in the entire TSX. The company recently reported its Q4 2016 earnings, which saw a top- and bottom-line beat. Is now a good time to pick up shares of this forever company?

Breaking down the Q4 2016 results

It was truly a terrific quarter which saw improvements across every aspect of the business, despite the difficult winter conditions in a mixed economic environment. The company reported a $1.23 EPS and a revenue of $3.22 billion, which absolutely crushed analyst expectations by $0.32 and $780 million, respectively. Net income increased 8% to $1.02 million with diluted EPS increasing 12% to $1.32 when compared to Q4 2015. The operating ratio also improved by 0.6% to 56.6%.

The fantastic management team focused on operational efficiency to adjust to a tough economic environment in 2016. This allowed the company to thrive even when volumes were down during the year. I believe the terrific results could be the start of a sustained rally to the $100 level.

Dividend raise? Yes, please

The company announced that it will increase its dividend by 10%. For long-term holders of the stock, this is just one of the many generous dividend increases that you can expect each year, even in a difficult economic environment.

I believe that the company's volumes will pick up next year as President Trump gives the U.S. economy a boost by reducing corporate taxes and regulations. Canadian National has a large chunk of its revenue coming from the U.S.

President Trump is encouraging companies to manufacture in the U.S. to create jobs for the American people. This will result in huge volumes of raw materials being moved across Canadian National's U.S. network and may result in an even larger dividend hike for next year.

What about valuation?

The stock trades at a forward price-to-earnings multiple of 17.3, a price-to-book multiple of 4.7, and a price-to-cash flow multiple of 14.3, all of which are in line with the company's historical average multiples of 18.3, 4.1, and 14.3, respectively.

The stock is not a steal by any means, but I believe there are catalysts that will drive the stock higher this year. The Canadian economy is recovering and the American economy is getting stronger under President Trump. This could mean a huge increase in volumes for Canadian National next year.

Sure, the stock is hitting all-time highs, but I still think you should buy it if you're a long-term investor. The dividend-growth potential is gigantic, and you'll get very rich over the next decade by buying into this stock.

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