Canadian National Railway Company Will Benefit in 2017

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is a leading player in the North America transportation sector. Operating over 20,000 miles of track, Canadian National Railways 's railroad network spans Canada from the Atlantic to the Pacific. It also has substantial track laid down the middle of the United States, running parallel to the Mississippi.

Key ports located in Canada include Vancouver, Montreal, and Saint-John. Ports spanning into the U.S. include locations in Mobile, Alabama, and New Orleans.

Fundamental analysis

Canadian National Railways reported a marginal improvement for FY 2016. It had positive growth across the top and bottom lines. Top-line growth came in at a mild 2% improvement, while net income had an 8% year-over-year (YoY) change. Net income surpassed a billion dollars at $1.018 billion.

Some favourable improvements came from a reduction in labour and fringe benefits with a 7% decrease in labour costs.

Further, Canadian National Railways announced a 10-cent increase in its quarterly cash dividend. The current dividend yield sits at 1.79%. Capital appreciation for the previous 12 months has been a whopping 40%. The share price has increased from $50/share in January 2016 to $69.86 as of Jan 30, 2017

Canadian National Railways's price-to-earnings ratio (P/E) comes in at 20 times trailing 12-month (TTM) earnings. Canadian National Railways 's P/E comes is below the railroad industry average of 25.8 times TTM.

Canadian National Railways 's largest improvements came from the agricultural sector. Grain and fertilizer made up 20% of total revenue. Canada is a net exporter of in the agriculture sector with US$42.41 billion in exports and $32.84 billion in imports. Agriculture is set to increase in volume both in Canada and the U.S. during 2017.

Petroleum was a close second with 18% of total revenue. This subset will be explored as a prospect for further growth moving ahead in 2017.

Improvements from the oil sector

Even though, technically, Canadian National Railways isn't going to "make America great again," it will benefit from Trump's administration's transition to oil and natural gas incentives.

Competition is already fierce among pipelines and competing railroad networks for cargo volume. However, the robust energy sector has proven that leading logistics and transportation participants will continue to benefit into 2017. A great foothold for the Canadian National Railways network is its trans-North America flow, allowing for freight to meet supply points from the Atlantic and Pacific coasts in Canada, and though the U.S. heartland down into the Gulf of Mexico.

Despite lower global fuel prices in 2016, Canadian National Railways seems to have been locked in to some unfavourable future contracts. This is noted in Canadian National Railways 's overall increase in fuel costs. With that said, this metric could see improvements at Canadian National Railways, and it should benefit from both increased transportation demands from oil and natural gas freight.

The Canadian oil industry has had a net increase of 114 active drilling rigs during the past 12 months. Further U.S. policy changes to roll back regulations in favour of the petroleum industry should be a net benefit for Canadian National Railways . Even with the prospect of the Keystone pipeline, it seems to be of minimal concern in the short term. Also, just looking at the way in which Canadian National Railways spans the U.S. and Canada, it market share is focuses on other shale plays.

Summary and outlook

FY 2017 guidance is realistic and in line with past performance. Management continues to return cash to shareholders with a forecasted 10% dividend increase and an issuance of a new share-buyback program. The expected earnings growth in the mid-single digits is in line with several other freight industry peers. A 3-4% volume increase seems feasible considering capital-spending plans that should be announced in the U.S. from President Donald Trump.

Further reductions in regulations, spanning from oil to coal, should allow for robust strength for the transportation and freight industry as Canadian National Railways will benefit directly from increased volume.

Considering the amazing share appreciation on Canadian National Railways , a current "Hold" recommendation is the most objective rating. However, as infrastructure and energy agendas become clearer from the Trump administration, Canadian National Railways is in a position to benefit and see further capital appreciation.

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