



## Is Canadian National Railway Company a Buy at ~\$100?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is one of the best dividend-growth kings on the TSX. If you bought and held it for the long term, the stock would be an incredible dividend play to go with capital gains. This is the reason why billionaire Bill Gates owns a huge stake in Canadian National, and why you should think about loading up on shares.

The company recently reported its Q1 2017 earnings, which saw record first-quarter revenues, operating income, and earnings per share. The management team also raised its profit guidance to approximately 10% growth over last year, but the stock still pulled back following the announcement. I think this post-earnings sell-off is completely unwarranted and will be short-lived as the stock continues to climb higher with the huge amount of positive momentum behind it.

### Why did the stock fall after a “terrific” quarterly report?

Overall, the quarter was impressive, but the general public didn't seem to think so. The street wanted perfection out of the report, and the lower-than-expected operating ratio increase of 0.5% was the reason for the pessimism. Canadian National has known as North America's most efficient railroad, but Frederic Tomesco of *Bloomberg* seems to think that the company is struggling to live up to that reputation.

I don't think the low operating ratio increase is any reason to panic. It's unrealistic to expect perfect numbers out of a company on a consistent basis. The management team is still focused on long-term operational efficiency, and this will be more apparent in the quarters to come. Ghislain Houle, CFO of Canadian National said, "...we're not going to keep our eye off the ball in terms of productivity."

Canadian National is firing on all cylinders, and I see no reason for the stock to slow down, especially since the volumes are expected to increase thanks to a strengthening U.S. economy under the Trump administration. The company will be boosting its capital spending in 2017 by about \$100 million to \$2.6 billion. A portion of the expenditures will go to buying 22 new locomotives, but a majority will go to track infrastructure.

## What about value?

Canadian National currently trades at a 21 price-to-earnings multiple, a 5.1 price-to-book multiple, and a 6.3 price-to-sales multiple, all of which are considerably higher than the company's five-year historical average multiples of 18.3, 4.1, and 4.9, respectively. The stock isn't a value play right now, but I still think it's a great buy today at the \$100 level. Canadian National is one of the stocks that you can buy at any level, and you'll do very well in the long run.

Sure, Canadian National wasn't as efficient as the street was expecting, but don't be tricked; it's still North America's most efficient railroad.

Stay smart. Stay hungry. Stay Foolish.

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1. Investing

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