Canadian National Railway Company Surpasses Q2 Estimates: Time to Buy?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), Canada's largest rail network operator, announced better-than-expected second-quarter earnings results after the market closed on Tuesday. Let's take a closer look at the results and the fundamentals of its stock to determine if we should be long-term buyers today.

A quarter of very strong top- and bottom-line growth

Here's a quick breakdown of 10 of the most notable statistics from Canadian National's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Adjusted net income	$1,013 million	$865 million	17.1%
Adjusted earnings per share	$1.34	$1.11	20.7%
Rail freight revenues	$3,111 million	$2,646 million	17.6%
Other revenues	$218 million	$196 million	11.2%
Total revenues	$3,329 million	$2,842 million	17.1%
Operating income	$1,495 million	$1,293 million	15.6%
Operating ratio	55.1%	54.5%	(60 basis points)
Free cash flow	$811 million	$585 million	38.6%
Carloads	1.42 million	1.25 million	14%
Freight revenue per carload	$2,185	$2,118	3.2%

Other notable announcements

In addition to its earnings results, Canadian National made two notable announcements.

First, it announced that it would be maintaining its dividend of $0.4125 per share in the third quarter, and it will be paid on September 29 to shareholders of record at the close of business on September 8.

Second, it reiterated its outlook on fiscal 2017, calling for adjusted earnings per share in the range of $4.95-5.10 compared to fiscal 2016's adjusted earnings per share of $4.59.

What should you do now?

It was an outstanding quarter overall for Canadian National, and the results beat analysts' expectations, which called for adjusted earnings per share of $1.32 on revenue of $3.27 billion. That being said, I think the market will react positively to these results by sending its stock higher in the trading sessions ahead, and I think it represents a great long-term investment opportunity for two reasons in particular.

First, it trades at attractive valuations. As of the market close on Tuesday, Canadian National's stock trades at 19.7 times fiscal 2017's estimated earnings per share of $5.15 and 18.1 times fiscal 2018's estimated earnings per share of $5.61, both of which are inexpensive given its current growth rate and its estimated 8.9% long-term earnings-growth rate.

Second, it's one of the best dividend-growth stocks in the market. Canadian National currently sports a 1.6% yield, and its 10% dividend hike in January has it positioned for 2017 to mark the 21st consecutive year in which it has raised its annual dividend payment. It's also important to note that it has a dividend-payout target of 35% of its net income, so I think its very strong growth, including its 19.4% year-over-year increase to an adjusted $2.52 per share in the first half of 2017, will allow this streak to continue for the foreseeable future.

With all of the information provided above in mind, I think all Foolish investors should strongly consider initiating positions in Canadian National Railway today.

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jsolitro