



## Canadian National Railway Company's Q3 Revenues Rise 6.9%: Buy Now?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), Canada's largest rail network operator, announced its third-quarter earnings results after the market closed on Tuesday. Let's break down the results and the fundamentals of its stock to determine what we should do with the stock now.

### Breaking down the quarterly performance

Here's a quick breakdown of 10 of the most notable financial statistics from Canadian National's three-month period ended on September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Rail freight revenues	\$3,016 million	\$2,813 million	7.2%
Other revenues	\$205 million	\$201 million	2.0%
Total revenues	\$3,221 million	\$3,014 million	6.9%
Operating income	\$1,459 million	\$1,407 million	3.7%
Operating ratio	54.7%	53.3%	140 basis points
Adjusted net income	\$989 million	\$972 million	1.7%
Adjusted diluted earnings per share (EPS)	\$1.31	\$1.25	4.8%
Free cash flow	\$662 million	\$574 million	15.3%
Carloads transported	1,484,00	1,332,000	11.4%
Freight revenue per carload	\$2,032	\$2,112	(3.8%)

### 2017 outlook

In the press release, Canadian National also reiterated its outlook on fiscal 2017, calling for adjusted diluted EPS of \$4.95-5.10, compared with the \$4.59 it earned in fiscal 2016.

### **What should you do with Canadian National's stock today?**

It was a solid quarter overall for Canadian National, and it posted a fantastic performance in the first nine months of fiscal 2017, with its revenue up 10.6% to \$9.76 billion, its operating income up 8.7% to \$4.26 billion, and its adjusted diluted EPS up 12.8% to \$3.79. However, the company's adjusted EPS in the third quarter came up just short of the consensus analyst estimate of \$1.33 according to TSX Inc., so the stock could face weakness in today's trading session.

Regardless of the price action in Canadian National's stock today, I think it represents a great long-term investment opportunity for two fundamental reasons.

First, it's attractively valued. At the close of trading on Tuesday, Canadian National's stock trades at 21 times the median of its EPS outlook of \$4.95-5.10 for fiscal 2017 and 19 times the consensus analyst estimate of \$5.56 for fiscal 2018, both of which are inexpensive given its current double-digit earnings-growth rate and its estimated 9.4% long-term earnings-growth rate.

Second, it's a dividend-growth superstar. Canadian National currently pays a quarterly dividend of \$0.4125 per share, representing \$1.65 per share annually, which gives it a yield of about 1.6%, and its 10% dividend hike in January has it on track for 2017 to mark the 21st straight year in which it has raised its annual dividend payment. The company also has a dividend-payout target of 35% of its net income, so I think its very strong growth, including its aforementioned 12.8% growth to \$3.79 per share in the first nine months of 2017, will allow its streak of annual dividend increases to easily continue into the 2020s.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Canadian National Railway a long-term core holding.

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## Date

2025/07/07

## Date Created

2017/10/25

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