



Is Canadian National Railway Company a Buy After 3rd-Quarter Results?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) reported its third-quarter 2017 results on Tuesday, and they demonstrated why I remain bullish on railways as core portfolio stocks. I've said it before, and I'll say it again: investors should own Canadian National Railway.

Let's dig into the quarter.

On the top line, revenue increased by 7% year over year to \$3.2 billion. Revenue tonne miles (amount of earned revenue for every mile a tonne travels) increased by 10% and carloadings (the amount of freight loaded into a car) increased by 11%.

On the bottom line, operating income increased by 4% to \$1.46 billion. Adjusted diluted earnings per share increased by 5% to \$1.31. The only real negative is that net income decreased by 1% to \$958 million, despite diluted EPS increasing by 2%. Management blamed this drop on the constant fluctuation of the Canadian dollar to the U.S. dollar.

It's the middle, between the top line and bottom line, that is worth looking at. Operating expenses increased by 10% to \$1.76 billion, which pushed the operating ratio up to 54.7%, an increase of 1.4%. This is another reason why revenue was up by 7%, but operating income was up by only 4%. Despite this, Canadian National remains the most efficient railroad in North America.

All in all, the business is doing very well. Revenue is up, earnings are up, and cash flow saw a major boost from \$574 million to \$662 million year over year. So, when should you buy?

In the earnings release, management also revealed that it had bought back 5.3 million shares during the quarter. Although this is down from 6.4 million in Q3 2016, it actually accounted for a greater amount of money spent buying back shares — \$532 million compared \$501 million. And after three quarters, management has spent \$1.544 billion to buy back 15.9 million shares at an average price per share of \$97.13.

At the same time, Canadian National Railway continues to take steps to increase its dividend. In January, the company increased the dividend by 10% to the current \$0.4125 per share. For 21 years

straight, Canadian National Railway has increased the dividend, so I see little reason why this trend will stop going into the fourth quarter and beyond.

But there's one final reason I believe you should buy Canadian National Railway: it's a true barometre of the economy. When shipments are up, like they are now, it shows that people are buying and consuming. That points to other companies, such as retailers, energy companies, or other potential investments doing well.

The thing is, trying to build a competitor to Canadian National Railway is virtually impossible. There are only two major railways in Canada. To launch a new one would require tens of billions of dollars, not to mention constant legal battles for land rights. This means that Canadian National doesn't have to play defence and can focus its energy on being more efficient to seek out greater margins.

Railways belong in your portfolio; there's no denying that. And, in my opinion, Canadian National Railway is definitely the right one to start buying. As the third-quarter shows, the company is operating with incredible efficiency and should continue to grow.

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