Canadian National Railway Company: Buy the Post-Earnings Decline Before Shares Take Off

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) recently released its Q3 2017 results, which missed analyst expectations on the earnings front. As a result, shares pulled back just over 1% for the trading day. While the earnings report was a definite miss, I do not believe the general public should be as gloomy as the intraday stock price movements would suggest.

Underwhelming third quarter could create an attractive entry point for long-term dividend-growth investors

CN Rail clocked in $3.221 million in revenue, up 6.9% year over year, while adjusted diluted EPS was clocked in at $1.31, up 4.8% year over year, slightly missing analyst expectations of $1.32. The company improved its operating ratio to 54.7%, up 140 basis points from the same quarter last year, which goes to show that North America's most efficient railway is becoming more efficient with time.

While the general public was mostly disappointed with the slight miss on the bottom line due to higher operating expenses, I believe many investors are missing out on the long-term positives. CN Rail's industry-leading operating ratio of 54.7% is something to brag about, especially since the 140-basis-point quarterly increase came in a higher fuel price environment.

Going forward, volumes are expected to continue to increase, and in response, the company is expecting to spend a great deal on new workers and locomotives. CN Rail bumped its 2017 capital expenditure budget by $100 million to $2.7 billion.

Valuation

Shares of CNR currently trade at a 20.41 price-to-earnings multiple, a 5.2 price-to-book multiple, a 6.2 price-to-sales multiple, and a 14.3 price-to-cash flow multiple, all of which are slightly higher than the company's five-year historical average multiples of 18.3, 4.1, 4.9, and 13.9, respectively. Although the stock appears to be fully valued, I believe CN Rail will enjoy medium-term tailwinds as volumes continue to increase while commodity prices gradually rebound. That being said, I believe shares of

CNR are attractively valued, despite trading at slightly higher multiples than recent historical averages.

The stock of CNR has a 1.6% dividend yield, which is slightly higher than the five-year historical average yield of 1.5% and is expected to grow by a huge amount over the next five years. CN Rail is a low-risk, high-reward, dividend-growth king that should be accumulated on any forms of weakness.

Takeaway

The negativity following the mixed Q3 2017 results is overblown, and should a larger sell-off present itself over the next few days, I'd strongly recommend backing up the truck, especially if shares hit the $100 levels again.

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