Growth Investors: Canadian National Railway Company Is Poised to Pop in 2018

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) shares catapulted higher since the beginning of 2017 until mid-year, when they started losing momentum. The railroad stock has lost about 3% value since. Had the stock continued to rally, investors would be sitting on much higher returns than the 15% that the stock is currently returning. Rival **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) is up 20% so far this year.

I believe Canadian National (CN) is ending 2017 with strong tailwinds that should send the stock soaring in 2018.

When a company starts hiring, you know business is improving

After years of calculated and constricted spending, CN is back to investing. The railroad is on a hiring spree, having hired more than 3,500 workers in 2017. It isn't done yet — another 2,000 workers or more could be added to its workforce in 2018. Here's what CEO Luc Jobin said during the company's last earnings call:

To meet the needs of an expanding North American economy and new growth opportunities, we are increasing investments in our infrastructure and equipment by $100 million, for a total capital program of $2.7 billion in 2017. During the third quarter, and continuing through the rest of the year, we've been hiring across our network, particularly in Western Canada, as we remain focused on delivering superior service to our customers.

Clearly, CN is witnessing strong business activity, and it isn't limited to just one or two segments. In fact, the railroad's shipments are surging across the board.

Coal, oil, grain: three big catalysts for 2018

During the nine months ended Sept. 30, 2017, CN reported double-digit growth in revenue from all but two end markets: petroleum and chemicals and forest products. Here's a quick glance at CN's end-market year-over-year revenue growth for the nine-month period (note that I have listed the segments in descending order in terms of contribution to CN's revenue from largest to smallest):

- Intermodal: 12%
- Petroleum and chemicals: 4%
- Grain and fertilizers: 12%
- Forest products: NA
- Metals and minerals: 27%
- Automotive: 11%
- Coal: 31%

Metals and minerals and coal — two key markets that were a major drag on CN's top line in the past couple of years — have bounced back sharply, which bodes very well for CN for 2018. Just to give you an idea, CN's revenue from coal and metals and minerals slumped 29% and 15%, respectively, in 2016. Also, CN's revenue from petroleum and chemicals was down 11% in 2016. Canadian Pacific, however, may not benefit as much as it derives a major chunk of revenue from grain.

Why CN stock will soar in 2018

CN is witnessing strong shipment volumes of crude oil and refined petroleum products, which is likely to spill over to 2018 as fresh production, especially from the Alberta oil sands, hits the market.

Meanwhile, a long-due recovery in commodity prices is boosting exports of metallurgical and thermal coke the mining industry. Elsewhere, the 2017-2018 grain crops in the U.S. and Canada will likely be at or above their five-year averages.

For investors, all of that should mean higher dividends and stock price. CN will report its full-year earnings sometime late January 2018, and it'll likely be a strong report as CN expects its adjusted FY 2017 earnings per share to come in between $4.95 and $5.10, reflecting a 9% growth at the mid-point. That coupled with a potential strong outlook should set the ball rolling for CN shares for 2018.

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