Canadian National Railway Company Disappoints in Q4: Is it Time to Sell?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) released its fourth-quarter earnings on Tuesday, and they failed to impress investors. Adjusted earnings per share of $1.20 fell short of the $1.22 that was expected by analysts.

Net income of $2.6 billion was more than double the $1 billion in profit the company posted a year ago. However, a big reason for the improved bottom line is due to a deferred tax recovery of $1.76 billion, which is a result of lower tax rates in the U.S.

Revenues of $3.29 billion for the quarter were up 2% from a year ago and beat expectations of $3.27 billion. The results were a slight disappointment for a company that was seeing significant volume and that needed to hire extra staff to meet growing demand.

Let's take a closer look at the results to see whether the stock is a good buy today.

Operating income down from a year ago

The small increase in revenue was more than offset by operating expenses, which were up 9% from a year ago. The biggest increase came from fuel expenses, which were up more than $60 million, and that could be higher in future quarters as the price of oil continues to rise.

Higher traffic sends revenues up

A big reason for the improved top line for CN Rail was a result of greater economic activity, which saw intermodal car loads up 20% from last year, and metals and minerals were also up 12%. However, all other segments were down from the prior year. Although this was still an improvement overall, **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) saw better numbers when it reported its earnings a week ago.

Dividend raised 10%

CN Rail also announced on Tuesday that it would be raising its quarterly dividend from $0.4125 to

$0.455. However, with a yield of less than 2%, it's not a stock that is likely going to be targeted by investors solely for its payouts.

Will the economy continue to give railway stocks a boost?

Both CP and CN Rail saw improved quarters, as the Canadian economy continues to grow and expand. However, whether or not that will continue will be a big question. In CN Rail's case, the railway operator did not see a big boost in revenue despite a strong economy.

Rising interest rates, increasing debt levels, and NAFTA uncertainty are just a few reasons why the economy might see a decline this year. CN Rail is already making some big bets that things will continue to improve for the foreseeable future, as it plans to add more staff and it recently agreed to purchase 200 locomotives.

Is the stock a buy today?

In the past year, CN Rail's share price has risen 7%, but it has failed to sustain any momentum. However, the railway operator's stock has increased more than 300% over the past five years, and it could provide investors with a lot of stability. The company has recorded revenues north of $3.2 billion in each of the last five quarters, and it has posted sales of more than $12 billion for the past four years as well.

CN Rail is a great buy for the long term that can earn you a small dividend while also providing you with above-average returns.

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