Why Canadian National Railway Company Fell 2.12% on Wednesday

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), Canada's largest rail network operator, watched its stock fall 2.12% on Wednesday following the release of its fourth-quarter earnings results Tuesday afternoon. Let's break down the quarterly results and the fundamentals of its stock to determine if we should consider using this weakness as an opportunity to initiate long-term positions.

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A lacklustre quarterly performance

Here's a quick breakdown of 12 of the most notable statistics from Canadian National's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Rail freight revenues	$3,091 million	$3,022 million	2.3%
Other revenues	$194 million	$195 million	(0.5%)
Total revenues	$3,285 million	$3,217 million	2.1%
Operating income	$1,301 million	$1,395 million	(6.7%)
Operating ratio	60.4%	56.6%	380 basis point expansion
Adjusted net income	$897 million	$952 million	(5.8%)
Adjusted diluted earnings per share (EPS)	$1.20	$1.23	(2.4%)
Net cash provided by operating activities	$1,349 million	$1,378 million	(2.1%)
Free cash flow	$457 million	$777 million	(41.2%)

Revenue tonne-miles (millions)	59,477	58,906	1.0%
Carloads transported (thousands)	1,461	1,369	6.7%
Freight revenue per carload	$2,116	$2,207	(4.1%)

Dividend hike? Yes, please!

In the press release, Canadian National announced a 10.3% increase to its quarterly dividend to $0.455 per share, and the first payment at this increased rate will come on March 29 to shareholders of record at the close of business on March 8.

Outlook on 2018

In the press release, Luc Jobin, Canadian National's president and CEO stated the following: "As the economic backdrop remains favourable in North America, we expect to see continued volume growth in 2018."

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The company then provided its outlook on fiscal 2018, calling for adjusted diluted EPS in the range of $5.25-5.40, which would represent growth of 5.2-8.2% from the $4.99 it earned in fiscal 2017.

What should you do now?

It was a disappointing quarter overall for Canadian National, which it attributed to the "rapidly changing market demands" and "challenging operating conditions, including harsh early winter weather across the network," so I think the weakness in its stock on Wednesday was warranted.

However, it's important to not overlook the company's great performance in the full year of fiscal 2017, as its total revenue increased 8.3% to $13.04 billion and its adjusted diluted EPS increased 8.7% to $4.99 compared with fiscal 2016; these strong annual results lead me to believe that the downside in its stock will be limited.

As for what I would do with the stock right now, I would be a long-term buyer for two fundamental reasons.

First, I think it's undervalued. Canadian National's stock now trades at just 19.6 times fiscal 2017's adjusted diluted EPS of $4.99 and only 18.4 times the median of its EPS outlook for fiscal 2018, and both of these multiples are inexpensive given its current earnings-growth rate and its estimated 10% long-term earnings-growth rate.

Second, it's a dividend-growth aristocrat. Canadian National now pays an annual dividend of $1.82 per share, which brings its yield up to about 1.85%. A 1.85% yield isn't very high, but it's of the utmost importance to note that the dividend hike it just announced puts it on track (no pun intended) for fiscal 2018 to mark the 22nd consecutive year in which it has raised its annual dividend payment, giving it one of the longest active streaks in the market today.

Including reinvested dividends, Canadian National's stock has returned more than 43% since I first recommended it on October 13, 2014, and I think it still represents a fantastic long-term investment opportunity today, so take a closer look and consider using the post-earnings weakness to begin scaling in to positions.

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