What Do Q4 Results Mean for Canadian National Railway Company?

Description

If there's one thing that I've said for quite some time now, it's that **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) belongs in every portfolio. Because rail is so integral to the economic supply chain, it can act like a barometre for a country's economy.

With the economy continuing to strengthen, both in Canada and the United States, Canadian National Railway is demonstrating strong growth. On Tuesday, it released its Q4 results. However, the results were not perfect, and there are a few questions that should be answered.

On the top line, revenue grew by 2% to $3.285 billion compared to Q4 2016. And if we look at the full-year 2017, revenue was up by 8% to $13 billion. Net profit for the quarter was incredible, up 156% to $2.6 billion. However, this is thanks to a deferred income tax recovery of $1.764 billion due to the lower U.S. federal corporate income tax rate.

When we take that out of the equation, the picture is a little less exciting. Adjusted net income for the full year was up 6% to $3.778 billion compared to 2016. Unfortunately, adjusted net income was down 6% in the fourth quarter.

One reason this occurred is because operating expenses increased by 9% to $1.984 billion with the operating ratio increasing by 3.8% to 60.4%. Management blamed this on higher costs from increased volumes, harsh early winter weather, and higher fuel prices. Increasing oil prices can be great for railroads, because it means increased shipping, but it also means increased costs.

One of my top reasons for recommending Canadian National Railway has always been its operating ratio. Even when revenue is down, if the company can remain operationally competitive, profits don't have to drop.

I will begin to get concerned about the operating ratio if it continues to stay in the low 60% range. Canadian National Railway has always been the best operator in the space, so if it loses that competitive advantage, I worry that investors may seek out other companies to invest in. That'd put selling pressure on the stock.

So, we're left with the question: Should investors be buying after the Q4 results?

Frankly, I'm still a believer in Canadian National Railway. It's true that it had a rough quarter from an operational perspective, but I don't see that being a long-term trend. On the contrary; it is investing intelligently, so it can increase capacity and ensure that it is maximizing its margins.

Then there's the dividend. Management announced that it was increasing the dividend by 10% for the Q1 dividend. It may not seem like it because of the 1.65% yield, but Canadian National Railway has been working hard to increase the yield for its investors. And so long as growth continues, I don't see dividend increases disappearing.

It wasn't a perfect quarter by any stretch of the imagination. However, if Canadian National Railway can improve its operating ratio and continue growing the top line, I believe we'll be pleased with future results.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/01
Date Created
2018/01/27
Author
jaycodon