Canadian National Railway: Is This Stock Right for Your RRSP?

Description

Canadian savers are searching for top-quality stocks to add to their self-directed RRSP portfolios.

Let's take a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see if it deserves to be on your buy list today.

Earnings

CN reported 2017 adjusted net income of $3.78 billion, representing a 6% increase over 2016. All of the company's business segments saw revenue grow on a constant-currency basis, led by metals and minerals with a gain of 27%. Coal saw a 25% revenue increase, followed by intermodal (13%), automotive (10%), grain and fertilizers (7%), and forestry (1%).

U.S. exposure

CN has tracks running across Canada and down through the United States, connecting three coasts. The U.S. operations deliver a large chunk of the company's revenue, providing investors with a nice hedge against a potential downturn in the Canadian economy.

Capital plan

CN has a record capital plan in place for 2018. The funds are targeted at a variety of projects aimed at improving the company's infrastructure to accommodate growing freight demand and improve safety along the network.

Investors should be happy to see $1.6 billion allocated for track and railway infrastructure maintenance, including the replacement of 2.1 million rail ties and 600 miles of rail. CN is also spending $400 million on 60 new locomotives, which are part of a 200-unit order that will roll out over three years. Furthermore, the plan highlights $800 million in capacity expansion projects and other growth initiatives, including intermodal terminals and rail yards.

Dividends

CN generates significant free cash flow ($2.78 billion in 2017), and management does a good job of sharing the profits with investors. The company recently raised the 2018 dividend by 10%, and investors have enjoyed compound annual dividend growth of about 15% over the past 20 years.

At the time of writing, the stock provides a yield of 1.9%.

Risks

CN is essentially the backbone of the North American economy, so a dramatic slump in economic activity would have an impact on demand for the company's services.

Another item to watch is the potential for major new oil pipelines in Canada. Recent rejections and ongoing political and public opposition to new projects make it difficult to imagine progress on the pipeline front, but the Canadian government will likely push ahead with its efforts to get Canadian oil to international markets. CN's crude-by-rail business is an important part of the revenue mix, and there could be a hit in the coming years.

On the operational side, CN is having trouble meeting demand for grain shipments, and that is causing some grief for upper management. In fact, the board recently replaced CEO Luc Jobin, who held the post for less than two years. An interim CEO was named while the board conducts an international search for a new leader who can deliver "speed and determination."

Should you buy?

A tough winter and uncertainty in the executive ranks has led to a rare underperformance by CN's shares. The stock has recovered from $91 to $95 per share in recent weeks, but it still trades well below the 12-month high of $108.

Further weakness could be in the cards in the short term, especially if we see another pullback in the broader equity market, but investors with a buy-and-hold strategy might want to add a bit of CN to their RRSP portfolios, while the stock is out of favour. CN rarely goes on sale, and the long-term track record suggests buying the dips is a wise move.

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