Canadian National Railway Company Reports Weaker Q1 Results

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) reported results for the first quarter of fiscal 2018 yesterday, which reflected the impact of the harsh winter and network delays that were so widely publicized this past winter.

Net income fell to $741 million, reflecting a decrease of 16% over the same quarter last year. Diluted earnings per share came in at $1.00 per share, thereby reflecting a 14% decrease over the first quarter in 2017.

The decrease also applied to operating income, which declined 16% to $1,030 million. Operating expenses surged 9% in the quarter, coming in at $2,164 million as the costs associated with leasing additional locomotives and crews to clear the backlog caused by prior delays.

Free cash flow dropped $526 million in the quarter to $322 million. Canadian National's operating ratio slipped in the first quarter, increasing by 6 points to 67.8%.

In terms of the impact to full-year guidance, Canadian National released an updated outlook for the current fiscal, now calling for adjusted diluted EPS to fall in line between $5.10 to $5.25, a decrease of $0.15 over the previous guidance. By way of comparison, the adjusted diluted EPS from the previous year came in at just $4.99 per share.

Weaker Q1 results, but are they really that bad?

There's no denying that these latest results fell short of expectations, but there are a few things that investors should take into consideration when considering whether Canadian National remains a viable investment option.

First, the weaker-than-expected results were not entirely unexpected. The market anticipated Canadian National to post weaker results in line with yesterday's announcement, as the delays that affected the results were both widely known and acknowledged.

Second, the underlying cause of the delay was seasonal and has since passed. The particularly harsh winter was the primary catalyst behind Canadian National meeting just 17% of its orders in February. The weather-induced delay meant that farmers were left waiting for a freight car to arrive to haul goods to market, thereby pushing that delay to other segments of the economy.

Finally, Canadian National has taken steps to resolve both current and long-term issues. These steps should not be dismissed as a make-good effort on the recent delays, but more of a commitment to long-term growth. Following the February delays, Canadian National leased an additional 130 locomotives and crews to increase service and clear the backlog across its network.

Over the longer-term, Canadian National has now earmarked a total of $3.4 billion across its capital program, with $400 million targeted for track infrastructure improvements across Western Canada.

Is Canadian National a good investment?

Railroads still play an integral part in the North American economy, hauling over $250 billion worth of good each year. Canadian National is also the only railroad on the continent with access to three coastlines, which creates an incredible moat that's not going to change anytime soon.

Canadian National also offers investors a quarterly dividend that pays out a reliable 1.88% yield. While this may not be the highest yield an investor can earn from an investment, it is a reliable and stable dividend that has shown incredible growth over the past decade.

In my opinion, Canadian National remains a great long-term investment option. The recent Q1 results may have jittered some investors, but the overall long-term growth and income prospects for this longtime favourite remain as strong as ever.

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