



After a Weak Start, Will Canadian National Railway Company Finish 2018 on a Strong Note?

Description

In case you haven't been following closely, **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) ousted its CEO, Luc Jobin, following what can only be described as severe capacity issues to kick off the start of 2018. Jean-Jacques Ruest is serving as the company's interim CEO; however, unlike his predecessors, he's not known as a "rail guy."

Although it may seem like CN Rail is in dire need of another Hunter Harrison at its helm to deal with capacity issues that are reaching a level of "urgency," investors should [feel comfortable](#) taking a contrarian position in the stock amidst the harsh industrial environment and lack of certainty regarding who will get the profit train back on the right track.

A slow Q1 2018 that was relatively in line with expectations

CN Rail clocked in an EPS of \$1.00 for the quarter, which was in line with analysts' expectations. Many expected a slowdown for the quarter amid difficult weather conditions and necessary expenditures that resulted in a 9% year-over-year increase in operating expenses. As a result, CN Rail's operating ratio rose by 600 basis points to 67.8% (lower is better), which is nothing to write home about, especially since I don't believe that it indicates inefficiency going forward.

Looking ahead, CN Rail definitely looks like it can get back on the growth track in order to meet what can only be described as an underwhelming backlog of shipments. Infrastructure improvements are slated for completion, and inevitably, the company's efficiency will be trending downward once again.

"The major capital investment that will help us most is the installation of a double-track out West," said Ruest in CN Rail's annual meeting. "We're also building more sidings so we can have more trains on the grid at the same time. In sections where there are too many trains, we're going to have sections of double tracks."

Given this promising commentary from the interim CEO, I believe that CN Rail is in great shape to address the bottleneck in rail shipments. As such, CN Rail's status as "North America's most efficient

railroad” will not be in jeopardy, although the recent slowdown may indicate such.

Bottom line

At these levels, CN Rail is a very attractively valued stock with a [relative margin of safety](#). I think the public is overly concerned with the recent slowdown and the lack of a permanent leader following Jobin’s abrupt departure from the helm.

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