



Canadian National Railway (TSX:CNR) Is an Undervalued National Treasure!

Description

A bet on **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is essentially a bet on the long-term growth of the North American economy. While there will undoubtedly be bumps in the road, the trajectory will remain upward in the long haul, and as one of the most efficient operators in the North American rail scene, investors have the opportunity to be enriched by one of the greatest [low-risk wealth-creators](#) of all-time.

Indeed, CN Rail fits the definition of what Warren Buffett would call a “wonderful business” — a wide moat, steadily growing earnings, with exceptional stewards driving keeping the business on track. The stock is currently trading at a wonderful price. CN Rail is a gravy train, and whenever the stock pulls back due to [market-wide fears](#), the gravy train is making a temporary stop at the station to pick up new passengers. For long-term investors, that’s the perfect time to hop aboard before the gravy train departs the station.

CN Rail keeps on rolling

For the third quarter, CN Rail didn’t just deliver a slight earnings beat to go with significant infrastructure enhancements (22 out of 27 infrastructure projects finished as of the end of Q3). The company also managed to command an impressive 59.5% operating ratio (lower is better), which increased by just 230 basis points year over year as volumes and operating expenses jumped.

Management also guided to the lower end of its 5-7% expectations for volume growth, conservative expectations that I believe could allow the company to pole vault over expectations in the next quarter.

At the time of writing, CN Rail stock trades at a 12.6 trailing P/E, and a 4.1 P/B, both of which are lower than the company’s five-year historical average multiples of 19.5, and 4.4, respectively.

Given the company generated free cash flow averaging 12% of sales in 2009, CN Rail is a cash cow that’ll fair well come the next big economic downturn, so the currently depressed valuation makes no sense.

The foolish takeaway of CN Rail

CN Rail held its ground in the last recession, and it's going to hold its ground in the next one too. As one of the premier dividend growth superstars in the TSX, Foolish investors shouldn't hesitate to back up the truck on CN Rail after the recent pullback in the broader markets.

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