Canadian National Railway Company (TSX:CNR): Should You Buy the Stock on the Dip?

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) saw its stock price drop after reporting a rough start to 2019, and investors are wondering if the dip might be a good opportunity to buy the shares.

Let's take a look at the current situation to see if CN deserves to be in your portfolio right now.

Earnings

CN generated Q1 2019 revenue of $3.54 billion, representing a gain of $350 million, or 11%, compared to the same period last year. Revenue rose in all seven of the company's main segments, led by a 30% gain in the petroleum and chemicals group and a 15% increase in revenue from coal shipments. Adjusted net income in the quarter rose to $848 million compared to $741 million in Q1 2018.

CN derives a good chunk of its revenue and earnings from its U.S. operations, and the stronger American dollar helped the results.

Overall, it was a solid start to the year, despite difficult winter conditions in Canada and the United States that hit operating costs and impacted the number of carloads in some of the business segments.

Management reaffirmed guidance for 2019 with adjusted diluted earnings per share still expected to grow by double digits compared to 2018.

Why did the stock drop?

CN's share price initially slipped more than 3.5%. At the time of writing, the stock is still down about 2%. This might be a bit overdone. Earnings only slightly missed analyst expectations and the reasons are largely connected to external events, rather than internal challenges.

Investments

CN intends to spend a record $3.9 billion on capital projects in 2019, with $1.6 billion allocated to track and railway infrastructure maintenance. New locomotives and rail cars are also part of the plan.

Efficiency

The railway is one of the most efficient companies in the industry. CN reported an adjusted operating ratio of 67.2% for the quarter, representing a slight improvement over the same period last year. That’s not bad considering the difficult weather conditions to start 2019.

Dividends

CN raised the dividend by 18% for 2019. The company has a long track record of giving investors a nice chunk of the profits, and that trend should continue. The board is also allocating free cash flow to repurchase shares.

Should you buy?

A quick look at CN’s 20-year chart suggests that any dip in the share price should be considered an opportunity to add the stock to a buy-and-hold portfolio. The pullback will likely to be brief and is actually small considering the share price has rallied from $96 in late December to the recent high above $126.

If you have some cash looking for a home, CN should be a solid long-term pick today.

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