Top Risks to Canadian National Railway (TSX:CNR) Stock Rally

Description

The shares of **Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI) has had a great run this year. Its stock is up about 30% since hitting the December low. After this impressive rally, some analysts are seeing a sign of peak as headwinds gather steam.

The biggest threat to cyclical stocks, such as CNR, is coming from the escalating trade war between the U.S. and China. The dispute, which investors were expecting to be resolved by now, is lingering and threatening to slow down the global economy.

Another risk that may cause CNR stock to lose its shine is its slowing growth momentum. After successfully emerging from capacity constraints, CNR reported strong growth in shipping volumes in 2018, but that momentum seems to be weakening.

Last month, CN reported weaker-than-expected first-quarter earnings, hurt by the harsh winter weather. Adjusted earnings per share of $1.17, which included a $0.04 gain from a lower tax rate, fell short of analysts' consensus estimate of $1.19.

Oil output cuts are hurting CN Rail business

During the quarter, operating expenses rose 14% due to a crude oil train derailment in Western Canada. CN Rail growth is also being hurt due to Alberta's OPEC-style decision to force production cuts to deal with a glut. As a result, demand for crude shipment fell in February, the company said.

The company's operating ratio, a key performance indicator, came in at 67.2%, also lower than the analyst's projection of 64.1%. Highlighting some of these risks, **RBC Dominion Securities** analyst, Walter Spracklin, has recently downgraded CN Rail stock, pointing out to the company's historically high valuation.

The stock currently trades at the trailing 12-month price-to-earnings multiple of 21, higher than the industry average of 14.

Bottom line

Trading at $125.27 at writing, CNR stock has exceeded the analysts’ consensus 12-month price target of about $120 a share. Going forward, it will be hard for its shares to continue their upward journey given the multiple risks that could hurt the companies which are tied to global trade and economic. Staying on the sidelines seems to be a better option for investors at this point.

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