



## Canadian National Railway (TSX:CNR): Has This Stock Seen its Peak?

### Description

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) fell 3% yesterday, trimming some of its gains after a powerful rally this year. A plunge of this magnitude raises concerns among investors as to whether CNR stock has seen the best in the current boom cycle. Early signals suggest that this fear could be justified.

The latest confirmation came yesterday from East Coast railroad **CSX** ([NASDAQ:CSX](#)), which reported second-quarter results that missed analysts' estimates. CSX said it now expects revenue to decline as much as 2% in 2019 compared with an earlier outlook for a low single-digit gain.

That weakness in the company's sales growth was a total surprise for investors. At the beginning of the year, CSX CEO Jim Foote had brushed off warnings of a slowdown in the North American economy by saying "when you get a real recession, the volumes drop off really fast — that's not happening."

CSX's earnings miss yesterday pushed its stock more than 10% lower, dragging down the whole railroad sector, including CN Rail. By cutting its guidance for the current fiscal year, CSX says the adjustment is meant to reflect a cautious approach given the current economic uncertainty, and there's the prospect of increasing that outlook if conditions improve later this year.

That assessment from CSX may be true, and the transportation and logistics companies may still have some more upside left, but it's becoming increasingly clear that the growth environment for railroad stocks is becoming more hostile than favourable.

The lingering U.S.-China trade war has direct implications for transport and logistical companies such as CN Rail. There are also indications that the North American economy is hitting a slow patch after the robust growth of the past many years.

The Bank of Canada is already on the sidelines, while the U.S. Federal Reserve is expected to announce a rate cut as soon as this month. In my opinion, CN Rail can't remain immune to these developments due to its [crucial role in the economy](#).

The company runs a 20,000-mile network that spans Canada and mid-America, connecting three coasts: the Atlantic, the Pacific, and the Gulf of Mexico. It transports more than \$250 billion worth of goods annually, ranging from commodities to consumer goods.

Looking at the latest financial data, it seems that the company is vulnerable to a sudden change in the economic direction. In the company's latest quarterly report, CN reported weaker-than-expected profit.

## Bottom line

Trading at \$120.83 at writing, CNR stock is close to its consensus price target with its valuations looking a bit stretched. If you're on the sidelines, it's better to wait for a better entry point. The company's Q2 earnings report, scheduled for July 23, will provide a better insight. But if you already hold this stock, I don't see any reason to exit this trade, as there aren't many stocks with such a big competitive advantage and market power.

### CATEGORY

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### Date

2025/08/24

### Date Created

2019/07/18

### Author

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