



Canadian National Railway (TSX:CNR): A Great Company at a Fair Price!

Description

Let's dive straight into it. **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is a great company. It wouldn't be a stretch to say that it is integral to the functioning of Canada itself.

The year 2019 marks 100 years since the company's incorporation. It transports over \$250 billion worth of goods annually for a wide range of business sectors, ranging from resources to manufactured products and consumer goods, across a rail network of approximately 20,000 route-miles spanning Canada and mid-America.

It loves its shareholders. Since its IPO in 1995, it has raised its quarterly dividends at a CAGR of 16.8%. It's not for nothing that CNR is one of the [five largest stocks in the Bill and Melinda Gates Trust Foundation](#). When one of the world's richest men likes this stock, it would only seem prudent to keep an eye on it.

CNR is the only railroad in North America that connects ports on three coasts: the Atlantic, the Pacific and the Gulf of Mexico. The CNR network penetrates deep into resource-rich and manufacturing-intensive regions, to move raw materials, intermediate goods, and finished goods to market.

Record revenue in the June quarter

In the second quarter of 2019, CNR had a record, best-ever quarter in the history of the company. Revenues were at \$3.96 billion, an increase of \$328 million or 9% when compared to the same period in 2018. On average, CNR moved 150,000 barrels of crude oil a day in April, 180,000 barrels a day in May, and 200,000 barrels a day in June. CNR's capacity can support a total of about 300,000 barrels a day. Coal, crude, propane, and grain are going to be strong drivers for CNR in the second half of 2019.

In the June quarter, CNR got its operating ratio down to 57.5%, an improvement of 0.7 percentage points over the same period in 2018. Its dividend per share increased to \$0.53 in the second quarter of 2019, up from \$0.45 in the prior-year period. When a company regularly increases its dividend payout, you know that you are in possession of a good stock. A company rarely cuts back on a dividend after it starts paying one, which helps investors keep pace with inflation.

CNR is trading at \$113.01 which means it has returned 13% year to date and 40% in the last five years. At a forward price-to-earnings ratio of 16.3, this stock is trading at a fair valuation considering its long-term earnings growth of 8.3% and a forward dividend yield of 1.9%. Analysts tracking CNR have a 12-month average target price of \$131, indicating an upside potential of 16%.

The verdict

Why CNR is able to hit such good numbers is because of its fast-footed management. [As Fool contributor Neha Chamaria reported](#), CNR took on one of the most extreme winters in North America in the first quarter of 2019 and won. Its proactive move to press a larger fleet of locomotives and railcars into operation this winter helped it not only trump weather challenges but deliver record first-quarter carload volumes and revenue.

its operating ratio in the first quarter of 2019 was 69.5% due to weather conditions and foreign currency fluctuations, both factors that are beyond the control of the company. The fact that they brought it down to 57.5% in the last quarter is a testament to the company's efficiency.

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Date

2025/07/04

Date Created

2019/10/03

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