Operations Focus Helps Canadian National Railway (TSX:CNR) Post Strong Numbers

Description

Signs of a weak economy have not stopped **Canadian National Railway** (TSX:CNR)(NYSE:CNI) from posting strong third-quarter numbers for 2019. Its relentless focus on operations has paid off handsomely.

Revenues for the September quarter clocked in at $3.8 billion, up 4% versus last year. Operating income came in at $1.61 billion, up $121 million or 8% versus last year. CNR's third-quarter operating ratio was 57.9%, or 160 basis points lower than last year.

You have to keep in mind that CNR's operating ratio always excludes the benefit of any asset sales. Net income is just shy of $1.2 billion, or $60 million higher than last year. Diluted earnings per share for the third quarter of 2019 were $1.66 versus $1.54 in 2018, up 8%.

CNR also announced that its board of directors has approved a fourth-quarter 2019 dividend of $0.5375 per share, indicating a forward dividend yield of 1.8%.

All these numbers look great, especially after CNR President and CEO JJ Ruest admitted that the economy is softening. "CN delivered strong results, despite a softening economy," he said. "Our team of experienced railroaders swiftly aligned resources with the weaker demand to achieve solid efficiency gains."

Operational efficiencies

CNR improved efficiencies on all fronts. One of the operational highlights this quarter was that the team handled an all-time record GTMs (gross ton-miles) for the third quarter, 1% more than last year's Q3 and 5% higher than 2017. The company's fuel efficiency improved by 4.1% in the quarter, avoiding 50,000 metric tons of CO_2 emission and saving $15 million in costs.

This means CNR moved 4% more tonnage, the same distance with the same amount of fuel. Fuel expense was 11% lower than last year, driven by a 12% reduction in fuel prices. CNR claims that they are the most fuel-efficient freight railroad in all of North America.

Train speed improved by 4% over the same quarter last year. Car velocity improved 7% and train productivity increased 2% versus the same quarter in 2018. Equipment rents were 11% lower than last year, driven by lower locomotive lease expense of $20 million. All these resulted in free cash flows of almost $1.5 billion through the end of September.

Natural gas liquids revenue was up 32% in Q3, driven mainly by propane and the full ramp-up of the AltaGas export facility in Prince Rupert. CNR expects this to grow in the quarters ahead. Strong growth in Canadian coal exports (up 80%) was partially offset by slower U.S. thermal coal exports (down 38%). The company expects to see a sequential increase in the run rate for Canadian coal in Q4 and expects the same for U.S. coal.

What does Q4 hold

CNR didn't mince words about the fourth quarter of 2019. Ghislain Houle, executive vice-president and chief financial officer said, "Q4 will be a challenging quarter, and if you look just from a volume standpoint month to date, our volumes are down 10%. So, obviously, that impacts EPS [earnings per share] and the volume deterioration is the story."

CNR has already put plans in motion to ensure that numbers are not hit. The company is downsizing its railcar fleet and targeting the removal of about 5,000 railcars, which is about 8% of its fleet. They will also vacate 75,000 square feet of leased space in Montreal.

We have always liked CNR and this result shows why. It is a great stock to hold when the going gets tough. It's no wonder that 14 out of 19 analysts have a "hold" rating on the stock and the remaining five recommend rate it a "buy".

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araghunath