Why the CN Railway (TSX:CNR) Strike Is a Buying Opportunity

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) stock was under pressure again this week (shares are now down 6% from April all-time highs) thanks to the widely-publicized strike that's now entering its third day of talks.

CN employees, including yard operators and conductors, took the walk on Tuesday, the beginning of what could be a massive hit to the chin of a Canadian economy that's already on unstable footing.

Analysts at TD Economics estimate that the CN strike could hurt economic output by $3.1 billion. And with CN Rail's upcoming results positioned to take an uppercut to the chin, many investors are growing nervous as the strike lingers on.

CN Rail is the heart of the economy, and anytime it's down, the economy is could be at the risk of flatlining. Fortunately, Canada's transport minister is continuing to encourage both sides to continue negotiating to avoid further escalation of a lose-lose situation.

Quebec is reportedly experiencing an "emergency" propane shortage as a result of the CN Rail strikes. And should the strike not come to some sort of conclusion soon, we could see many more localities falling into similar situations as goods remain put or look to truckers to offset a bit of the pressure.

The whole situation is akin to the body when the heart stops, and no oxygenated blood can be delivered to vital organs.

Fortunately, there is a defibrillator that can jolt things back to normal. But for now, investors have few, if any, reasons to be optimistic over negotiations. Add further concerns about an already sluggish Canadian economy and the risk of recession looks to be rising by the day.

With all the doom and gloom amid the CN Rail strike, the stock could continue to pick up negative momentum if a deal isn't reached within the next week. I wouldn't at all be surprised to see CN Rail back at $110 if worse comes to worst. And if it does hit that level, I'd get ready to back up the truck because CN Rail has been through far worse.

With unionized workers, strikes are bound to happen eventually. And in the grander scheme of things, the bump in the road caused by such a strike will be seen as nothing more than a blip — a buying opportunity for long-term thinkers.

Investors are already bracing themselves for what could be a stinker of a quarter, so it does make sense to buy shares in spite of the non-stop negativity on the name.

The stock trades at 18.2 times next year's expected earnings and 12.8 times EV/EBITDA, a low price to pay for a dividend-growth king that's vital to the health of the Canadian economy.

I don't see the CN Rail strike lasting too long, however. The next thing you know, the strike could be over, and the stock could make up for the slight decline it's posted over the past week.

So, don't even think about ditching your shares if you already own the name, and think about adding to your position now and on a further dip should talks continue to drag, and inspire investors to hit the panic button.

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