Is Canadian National Railway (TSX:CNR) a Buy at the Current Price?

Description

The markets have been phenomenal, to say the least, this year, trading close to record highs despite macro-economic concerns and fears of a slowdown snowballing into a full-blown recession.

The **Dow Jones Index** and the **S&P 500 Composite Index** trade just below record highs. But with a downturn on the horizon, do you still go all-in or is it time to pick and choose value stocks?

Here we look at one such domestic giant: **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Shares of Canadian National Railway have gained 17% year to date. In the last five years, the stock has returned 51% excluding dividend payouts. The stock was trading at $29 in May 2007 and fell to around $20 by the end of 2008. Since that time, CNR has gained an impressive 464%.

Strong Q3 results

Canadian National Railway is in the rail transportation business, with a network of 20,000 route miles across North America. CNR carries in excess of 300 million tons of cargo worth over $250 billion each year and generates close to 70% of sales from Canada and the rest from the United States.

In the September quarter, it reported sales of $3.83 billion, a rise of 4% year over year. Adjusted earnings per share rose 11% to $1.66. Its operating ratio fell 1.6 percentage points at 57.9%, while operating income rose 8% to $1.61 billion.

One of CNR's key priorities is to increase profit margins by reducing costs. It wants to reduce the car fleet by returning leased and less reliable rail cars.

The company has identified 5,000 rail cars that need to be returned. Canadian National Railway is wary of the lower demand and is managing crew to optimize the supply chain.

Last week the company implemented a recovery plan shortly after the eight-day long strike came to an end. Around 3,200 CNR workers went on strike, causing the company to run on just 10% of capacity.

This would have created a severe backlog for the firm, hampering operations and severely impacting the bottom line. CNR has revised its earnings lower by $0.15 in 2019 and remains focused on realigning resources to meet the slowing demand.

CNR CEO JJ Ruest stated, “Our discipline on our recovery plan is delivering results. While we expect to take some time and we remain dependent on favourable weather, we are pleased by how things are progressing. Safety is at the heart of everything we are doing as we bring our Canadian Operations back online and we have not experienced any significant setbacks at this point.”

What’s next for CNR and investors?

Despite the eight-day strike, analysts expect CNR to increase sales by over 5% year over year in 2019 and 2020. They also forecast annual earnings growth north of 7% over the next five years.

Compare these growth rates to its forward price to earnings multiple of 18 and we can see that the stock is trading at a premium even after accounting for its dividend yield of 1.9%.

CNR has a price to book multiple of 4.9 and an estimated five-year PEG multiple of 3.6 — hardly attractive to value investors.

While CNR remains a solid long-term buy, investors can perhaps look at adding stocks that are trading at a cheaper valuation in the current volatile market.

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