



## CN Rail (TSX:CNR) Keeps Your Pension Right on Track

### Description

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is headquartered in Montréal, Québec, and has a market capitalization of \$86.27 billion. The company has a five-year total return of 55.41% and pays a dividend of \$0.538. CN Rail owns just under 53% of all railroad track in Canada.

I like infrastructure stocks in general because many industries need to use them, and governments can't let them fail. This is particularly true for a railroad company. The recent CN Rail strike demonstrated how commodity-dependent [Canada uses rail](#) to ship goods. Infrastructure stock are long-term buys that tend to offer good dividends, but you must time their purchase right.

I want to point out my concern with CN Rail's CEO compensation package, which has increased by 20% at a time when earnings have fallen by the same amount. Such information usually causes my eyebrows to raise.

I like the stock, but I'm not convinced now is the time to buy it, because I think the price is too high. When compared to American railroad stocks, CN Rail is cheap only because of the currency difference and debt loads of certain American railroad companies. When CN Rail is compared to the strength of the Canadian economy, the stock looks expensive.

Freight companies do well when commodities do well. According to Transportation Canada, in 2018, 14% of freight moved was coal, 13% was grain, 9% was forest products, 8% was petroleum products, and 7% was potash.

Let's take a closer look at these commodities. In September 2019, **Moody's** downgraded the outlook for thermal North American coal from stable to negative. Soybean prices are down 3.7% from last year and may sink further because of tense relations with China. Annual prices of British Columbia forest products were \$411 in 2017 and are now \$367 in 2019. Alberta's oil prices are down, and the price of potash is almost flat.

These downward pressures on commodities have turned into [lower freight volumes](#). CN Rail experienced flat freight volumes in Q3 2019. Canadian manufacturing sales declined by 0.2% in September 2019, as did new orders by 2.7%. The machinery and equipment sector fell by 2.6% in

August 2019. Canadian forestry is experiencing harsh times. Over the summer of 2019, more than 20 sawmills closed or curtailed production in British Columbia alone.

Harvests are still waiting to be shipped, but that backlog should clear up in a month or two. Farmers are also facing a double squeeze of having fewer export markets, because of Chinese trade tensions and higher freight costs. Some regulated freight route costs have increased by 12% since September 2019. Increases in freight prices might be good for CN Rail, but they can have knock-off effects to farmers who will have less capital to invest next year and possibly fewer crops to ship as a result. In turn, next year CN Rail will see a reduction in revenue and raised rates to compensate for lower volumes. See how that spiral starts?

Let's not forget on November 15, 2019, CN Rail announced the company will be slashing about 1,600 jobs. Keep in mind, CN Rail's total workforce is 24,000 people. That's 6.5% of the company's workforce shed due to weakening economic conditions.

I suggest you watch this stock in the coming months to see how low the stock goes. If the stock hits a low you're comfortable with, pick it up then. It's like I said: no government will let critical infrastructure collapse. Be mindful that we're headed into a recession, and while Alberta's oil may soak up some of the excess freight capacity in the short term, oil is also recession sensitive.

This stock will continue to chug along. It's a question of how much distance you'll get for your dollar.

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