CN Rail (TSX:CNR) Recovers From Strike: Why the Dividend-Growth King Is a Smart Buy for 2020

Description

It's been a pretty rocky year for investors of **CN Rail** (TSX:CNR)(NYSE:CNI). While CN stock is up 18% for the year, it's still down 7% from its April 2019 all-time high after an unfortunate eight-day-long strike in November that caused many sectors of the Canadian economy to fall under a bit of pressure.

Not only did the strike cause CN Rail to miss out on eight days of business, but delays and backlog have caused post-strike operations to slow considerably.

As expected, management cut their annual profit forecast after the strike (the stock fell under pressure, yet again!), but now that the bar has been lowered heading into 2020, I do see the Dividend Aristocrat as a prudent buy now that the dividend yield is slightly higher than it usually is at 1.8%.

On December 19, CN Rail reportedly noted that operations have fully recovered from the strike. "I'm pleased to announce that our focused and methodical recovery plan is working and that the performance of our movements has recovered to normal ranges," said CN Rail CEO J.J. Ruest.

As the profit train looks to get back to full speed, while the Canadian economy looks to bounce back from a sluggish year, CN Rail could make up for lost time, especially if Ruest and company can continue defying the odds and bucking negative industry trends in the North American rail scene.

Given CN Rail's track record of operational efficiency, I wouldn't at all be surprised if the company ends up outperforming in its coming quarter in spite of the devastating operational impact caused by the November strike. It's that good.

Heading into 2020, management is poised to continue to reduce its fuel costs, with the encouraging fuel efficiency trend (rail fuel efficiencies improved 4% for the last quarter). Crude-by-rail shipments are also slated to soar in the new year, and you can bet that CN Rail will have the capacity in place to get a tonne of crude flowing out of Alberta.

While most other investors are fretting over the aftermath of the recent strike, I'd encourage value-conscious contrarians to buy into the dip now that the premium price tag has vanished.

The stock trades at 18.8 times next year's expected earnings and 5.7 times sales, both of which are in line with five-year historical average multiples. While a further discount on the name would be more desirable, I think most long-term thinkers should be content with paying close to fair value for the premium dividend-growth king at $118 and change.

If you're insistent on a discount, I'd add the name to your watch list and pounce on the next market-wide correction, which could be right around the corner, given the broader market is ending the year in overbought territory.

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