Canadian National Railway (TSX:CNR): The Train Chugs Along, but Where's the Gravy?

### Description

When a company spends a large part of its earnings call focusing on how it is going to reduce costs and less time on how it is going to grow, you know it doesn't expect a very good year. When the company in question is one of the world's largest rail transporters, you sit up and take notice.



**Canadian National Railway** (TSX:CNR)(NYSE:CNI) transports $250 billion worth of goods every year. It recently announced its fourth-quarter and full-year results for 2019, and the results were less than impressive. Revenue came in at $3.58 billion for the quarter compared to $3.81 billion in the same period in 2018. Petroleum and chemical shipments dropped 7% in revenue, while grain and fertilizer shipments dropped 6%.

Major reasons for the drop were because of a week-long strike in November and a lower demand for freight. While the strike might be over, CNR doesn't expect the freight situation to improve anytime soon. Canadian National might be hinting at a slowdown for the first half of the year when it says external economic indicators are down. Management expects the second half of the year to be conducive to growth.

During the earnings call, company CEO JJ Ruest stated, "The trade environment, when you look at how negative it was last year and how things seems to be at least turning, that at some point in the months to come or quarters to come that we will start to see some of the positive of that."

He added, "I know at the same time, nothing is guaranteed, but our view that we will build our plan and our capacity in-house as well as our employee resource effort is, we're looking at the second half at a time where we might be a little more — we'll have a little more business coming out of — than the first half."

## What's next for CNR investors?

This doesn't mean that one should write off Canadian National just yet. Over the past 10 years, CN's revenue has nearly doubled to reach $15 billion last year, while its operating ratio improved from 65% in 2010 to 61.7% last year.

The company has completed its capital expansion plans. Free cash flow for 2019 was $2 billion. After two years of elevated investment levels, Canadian National's capital spend for 2020 is estimated at approximately $3 billion. This will result in free cash flow in the range of $3 billion to $3.3 billion, which will drive a significant improvement in free cash flow conversion.

In 2019, Canadian National returned to shareholders almost 80% of adjusted net income through dividends and share repurchases. The board of directors approved a 7% dividend increase for 2020, which has meant that the company has now increased dividends for 24 consecutive years.

CNR is still one of the safest stocks on the TSX. A dividend yield of 1.74% might not be great, but it's unlikely that an investor will lose money if they bet on Canadian National. The gravy might be a little dry, but the meat's still tasty.

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**Date**
2025/07/06
**Date Created**
2020/02/03

**Author**
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