



Why the Canadian National Railway (CNR) Stock Price Rose 5.3% in January

Description

The periodic review of our stock holdings as well as the review of those stocks that are on our watch lists are important exercises. This review should happen at least once a year but also when big stock price movements are noticed. Let's review the January performance of **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) as well as get an update on the state of the company and the investment thesis.

In January, Canadian National Railway reported fourth-quarter and year-end 2019 results. These were results that beat expectations, and this, along with a 7% dividend increase, has sent the stock steadily higher.

Canadian National Railway stock price rallies on better-than-expected results

Let's dive down deeper and take a look at what exactly was so good about Canadian National Railway's fourth-quarter results.

Well, for starters, [the company handily beat consensus earnings estimates](#), reporting EPS of \$1.25 versus expectations of \$1.19. The most significant strength that contributed to this result was an increase in yields, measured by freight revenue per revenue tonne miles, which increased 9% relative to last year. This was achieved due to changes in mix; the inclusion of TransX in the intermodal commodity group and an increase in crude-by-rail volumes, as expected, which drove freight rate increases.

Although CNR stock is a cyclical stock, we have seen over the years that the company's competitive advantages, its special place in an industry that has extremely high barriers to entry, and its focus on efficiencies have kept the stock rising over the last few decades.

Canadian National Railway's stock price also rallied on better-than-expected cash flow guidance

As a result of lower activity, CN Rail management announced that they would be scaling back capital expenditures, and this has resulted in an increase in free cash flow projections for this year. More specifically, free cash flow is now expected to come in at between \$3 billion and \$3.3 billion. This cash flow will be used instead to [return cash to shareholders in the form of the dividend and share buybacks](#). The dividend yield is currently 1.84%, which is not that high, but one should note the returns that have been made due to capital appreciation of CNR stock.

I should also note here that this reduction in capital expenditures is a reflection of the low-growth environment that CN Rail management is forecasting. For 2020, management expects low-single-digit volume growth, but this doesn't change the long-term thesis, because in the long term, demand is sustainable, and CN's diversified exposure to different products will shelter results from weakness in any one area. With a very healthy balance sheet, continued efficiency initiatives, and the adoption of smart technologies in the future, we can see how CN Rail will continue to thrive on both a top-line and bottom-line perspective.

Foolish bottom line

Canadian National Railway stock continues to prove why it deserves a place in every investor's portfolio, and fourth-quarter results once again highlighted its value proposition.

In closing, I would like to remind Foolish investors of our belief in holding great businesses such as CN Rail for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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2. Investing

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