Coronavirus Fears: 1 Stock to Buy During This Market Correction

Description

Another week has gone by, and the markets have not recovered. News is bombarding us with fear, reminding us that cases of COVID-19 continue to rise per day. But as Warren Buffett says, buy when others are fearful and sell when others are euphoric. Take this message to heart. Now is the time to buy a quality company that will continue to generate strong cash flows in the future. What is a quality company I think is a good buy, you ask? The answer is **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

The trains keep on transporting

Canadian National Railway (CNR) is a backbone of the North American economy, allowing businesses to transport goods across Canada and the United States. CNR benefits from strong barriers to entry, as substantial capital is required to build railway infrastructure necessary to compete. Railways as a means to transport goods is the better option when comparing to the trucking industry, as the trucking industry congests highways and is less environmentally friendly. To put it into perspective, a freight train on average moves one tonne of freight more than 470 miles on one gallon of fuel. Good luck moving that much using a truck on one gallon!

Proven business model

CNR has repeatedly generated stellar earnings, with an operating margin of 62.5% and a free cash flow of $2 billion in 2019. CNR has generated a compounded average growth rate on revenue of 6% over the past seven years and has consistently pumped out a return on invested capital of 16%. It is no wonder why, with these strong financials, CNR's share price has outpaced the TSX by over 300%.

The company also benefits from having a positive debt rating from the top investment rating agencies. CNR has an A2 rating from **Moody's**, an A rating from Dominion Bond Rating Service, And A from Standard & Poor's. Having a high grade provided from investment rating agencies allows a company to receive loans or debt at a low-interest rate, similar to individual credit scores. Therefore, CNR can acquire debt at a considerably low interest rate.

Strong positive signaling

On top of strong share appreciation, CNR has increased the dividend from $0.51 per share in 2009 to $2.30 in 2020 at a payout ratio of only 37%. Having such a low payout indicates that the dividend is sustainable for the near and distant future. Currently, investors can get an annual yield of 2.12%.

The company also has participated in numerous normal course issuer bids, allowing CNR to repurchase and delete shares in the market. This is the opposite of dilution; it keeps the market capitalization the same and reduces the number of shares outstanding. By reducing the number of shares outstanding, it ultimately increases the share price and allows shareholders to profit through capital appreciation.

Foolish takeaway

COVID-19 is impacting industries across Canada, and CNR is not immune. Costs will increase due to preventative measures, and a general reduction in demand from companies requiring materials to be moved will occur. That being said, the share price has adjusted approximately 15% downward to reflect the situation, and once the vaccine is developed, share prices will quickly recover. Now is the time to buy quality companies. Now is the time to buy Canadian National Railway!

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