Market Crash Alert: Is It Time to Buy Canadian National Railway (TSX:CNR)?

Description

While the global equity markets are in turmoil is it time to bank on large-cap stocks such as **Canadian National Railway** (TSX:CNR)(NYSE:CNI)?

The **iShares S&P/TSX 60 Index ETF** is trading at $21.4, which is 21% below record highs. Comparatively, CN has lost 15% in this bear market and has managed to outperform the broader indexes.

There is a growing risk of a recession impacting Canada and other regions. Several economists predict that the upcoming downturn may be far worse than the one experienced during the financial crisis of 2008-09.

Railroad stocks perform in line with the economy. If the economic output is subdued, investors can expect shares of the Canadian National Railway to derail.

There is also the looming threat of plunging oil prices, which would lower demand for coal — a key product for railroad cargo. The countrywide lockdowns will further hurt the demand for crude oil and the need to transport them from oil fields.

So, amid the growing uncertainty, are transportation stocks such as Canadian National Railway a good bet right now?

Canadian National Railway has a huge network

Canadian National Railway is the only rail company in North America that connects three coasts, giving it a distinct competitive advantage. The transportation giant generates revenue from Canada, and the United States and transports close to $250 billion worth of goods annually. These goods include crude oil, automobiles, coal, forestry products, fertilizers, food grains and more.

While the COVID-19 pandemic has driven consumer spending lower, CN provides an essential service and enjoys a monopoly, making it a safe stock even in the current environment.

Its focus on earnings and cash flow growth has helped the company increase dividend payments and reinvest in capital expenditure. CN ended 2019 with an operating margin of 62.5% and a free cash flow of $2 billion.

In the last seven years, its sales have risen at an annual rate of 6%, and last year the company invested close to $4 billion in new rail cars, networks and technology upgrades.

Canadian National Railway has generated significant wealth over the last two decades. According to Fool contributor Andrew Walker, a $6,000 investment in CN 20 years ago would have generated $125,000 after accounting for dividend re-investments.

CN stock is currently trading at $108.7 at the time of writing and is down 8.8% year to date. This pullback has increased the dividend yield to 2.1%.

The verdict

The upcoming quarterly results of the Canadian National Railway will throw more light on the impact of the COVID-19 on the company's financials. However, CN remains a fundamentally strong company. It is almost impossible to time the market, and the ongoing volatility makes it that much more difficult.

The COVID-19 pandemic is likely to be a near-term headwind and will impact the top line of several companies in the upcoming quarters.

But for long-term investors, the outlook for railroad stocks remains unchanged. The recent pullback in CN stock should be viewed as an opportunity to buy a top-quality stock at a lower valuation.

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