Why This Canadian Giant Will Be Vulnerable Amid the COVID-19

Description

There's no point beating around the bush. It's going to be a challenging year for **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway**.

I had written about CN last week, warning investors that the short-term impact for the company isn't great, but for investors looking at the long term, the outlook for railway stocks remained unchanged. This downturn is actually a great opportunity for the discerning investor to pick up quality railroad stocks.

Now, how long is the short-term impact going to last? CN CEO, JJ Reust said, "We're going to see the real impact of coronavirus in both Canada and the United States in the month of April."

The Association of American Railroad (AAR) put out data that said carloads fell more than 16% in the week ended April 4, 2020, compared to the same period in 2019.

For the week ended April 11, the number was 20.1%. This is a continuation of the growing decline in the shipments delivered by rail.

"The pandemic is affecting firms in every industry, and railroads are no exception," said AAR Senior Vice President John Gray. "When rail customers suffer a drop in demand for their products, their need for transportation services declines as well, and that negatively impacts rail volumes."

By all estimates, May will be worse than April. Industries across the nation have suspended operations because of the virus. The International Monetary Fund has slashed its growth forecast for Canada and says that GDP is going to contract by 6.2%.

The automobile sector will bear the brunt of this pandemic

Sectors like the automobile industry will see a significant fall in cars sold as well. Data website Statista says that the number of light cars expected to be sold in the US pre-COVID-19 was 16.9 million.

If the crisis persists for a longer duration, the number could be 14.5 million cars. Millions of people in North America are losing jobs, consumer confidence is low right now and people will think twice before buying another car.

Auto companies have completely halted production for two weeks on the continent. Ports have witnessed a major slowdown in container traffic as Asian countries suspended production at their facilities.

While traffic from China might increase gradually, no one will be in a hurry to buy a new car. Dealerships won’t stock cars that remain in the parking lot for a long time.

Crude oil is trading below $12 a barrel and fell close to 40% on April 20, at the time of writing. Transport numbers for crude are also low. After all, if industries are silent and people can’t drive, no one is going to be queuing up at gas stations.

When will the situation improve? In the fourth quarter of the year or maybe even in 2021. One thing is certain: When the situation does improve, both CN and CP are perfectly placed to take advantage of the recovery.

Both stocks have fallen less than 15% from their highs. The coming six to eight months present a great buying opportunity for investors with cash to spare.

Both companies have survived multiple economic downturns and they pretty much have a duopoly in the Canadian market. Keep buying these stocks on every fall.

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