CN Rail (TSX:CNR) Beats on Q1 Earnings: Time to Back Up the Truck?

Description

CN Rail (TSX:CNR)(NYSE:CNI) managed to do it again, defying the odds and crushing first-quarter expectations in spite of numerous setbacks, including rail blockades and coronavirus quarantines. The stock responded by surging 2.2% on the day and could be the start of a sustained rally higher, as the broader markets continue to recover from the coronavirus-induced crash.

CN Rail beats earnings estimates while pulling its 2020 guidance

It's hard to believe that CN Rail was able to clock in a 29% rise in profit in the first quarter given all the operational interruptions, including February's rail blockades sparked by anti-pipeline protesters and quarantines relating to the insidious coronavirus (COVID-19).

The company was able to recover pretty quickly and keep on rolling in spite of the pressures that would have caused most other railways to fall flat. The operating ratio (lower is better) fell to 65.7% and may be poised to fall even lower, as the firm continues to live up to its name as North America's most efficient railway.

In a prior piece, I'd highlighted the fact that CN Rail's management was more than capable of overcoming difficult times, making CNR stock a must-buy, even in the face of a coronavirus-induced recession: "While the coronavirus (COVID-19) will continue to hurt CN Rail's growth prospects through 2020, with a possible spillover into 2021, I am encouraged by the company's reputation for defying the odds and rising above and beyond the competition, even during times of economic hardship … The excellent managers behind the scenes are all about improving upon their operating ratio, regardless of what the exogenous environment has in store."

CN Rail: A king among men in the North American railway scene

With CN Rail's remarkable Q1 beat in the books, it's become more apparent that CN Rail is not like other railways. Not only is management, led by CEO J.J. Ruest, top notch, but the company also has some overlooked tailwinds that could help CN Rail stock make a move back to all-time highs by year-end.

The Canadian railways have seen healthier volumes relative to their peers south of the border of late — a trend I suspect to continue, as the coronavirus continues to wreak havoc on the broader economy. Crude-by-rail shipments surged 45% on a year-over-year basis and were a nice growth driver for the company during the first quarter. Management expects energy-related carloads to continue to be a growth driver for the company through this rough year, although this didn't stop them from pulling the 2020 forecast due to the numerous uncertainties relating to the COVID-19.

Foolish takeaway

Although I find it likely that CN Rail will continue to outperform its American rail peers, with Canadian-centric tailwinds such as a weakening loonie and surging crude-by-rail volumes, the recently pulled guidance makes the intermediate-term outlook pretty cloudy.

In any case, I'd urge investors to scale into a position today (at around 4.5 times book) if they haven't done so already if they're looking for a cautiously optimistic way to play these highly uncertain times.

Stay hungry. Stay Foolish.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

4. Stocks for Beginners

Date
2025/08/26
Date Created
2020/04/28
Author
joefrenette