# Why I'd Buy Canadian National Railway (TSX:CNR) Stock Now

## Description

**Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI) stock, like most stocks, has been very volatile this year. At its worse, it was down 25% for the year. It has since recovered somewhat, but investors may still be worried. The coronavirus pandemic has altered the world as we know it, and the shutdown has hit the economy hard. Canadian National Railway stock is no exception.



The Canadian railways transport more than $250 billion of goods annually from a diversified list of sectors. Natural resources, crude oil, manufactured products, and consumer goods all find their way to our homes through railways. So Canadian National Railway is the backbone of our economy. When the economy suffers, so will Canadian National Railway.

Here is why I'd buy Canadian National Railway stock on any price now and on any stock price weakness.

## Canadian National Railway stock remains resilient despite macro challenges

Yesterday, Canadian National Railway reported first-quarter 2020 financial results. These results were telling. Despite a month of illegal rail blockages, the company reported free cash flow of $573 million in the quarter. Fuel efficiency improved 6% to an all-time record, resulting in $20 million in savings. The operating ratio (operating expenses as a percentage of revenue) was 65.7%. This represents an improvement of 150 basis points.

For an illustration of the resiliency of the company, let's look at the impact of the 2008–2009 recession. At that time, revenue declined 13%. Canadian National Railway matched this decline with a 12% reduction in operating expenses. This shows the high level of control that the company has to preserve the bottom line in rough times. By 2010, Canadian National Railway stock was on its way up again as it left the recession behind it.

## Canadian National Railway stock is attractive due to the company's ability to quickly cut costs

Canadian National Railway's operating model has a high degree of variable costs. The only fixed costs are depreciation and pension costs. This is what enabled the company to do so well in the last crisis. And this is what will enable the company to also do well in this crisis.

In fact, Canadian National Railway has already begun to right-size its operations. It has reacted to the decrease in demand that was so obvious in March. The company has implemented a more than 15% reduction in rail cars and 16% of employees have either been laid off or furloughed. This has resulted in a 6% decline in operating costs.

## Canadian National Railway management looks ahead

The second quarter will be tough for the company. Automotive production will remain low for much of the period. The energy sector is suffering from the most severe price collapse ever. Demand for most consumer goods is being hit. Only essential goods are flowing.



Management has pulled its three-year guidance as visibility is limited. As they said on the conference call, "the worse is not behind us". April volumes so far are down 15%. Specific guidance seems useless as there is too much uncertainty. However, management ran many scenarios. The results show that $2.5 billion in free cash flow is the minimum that we can expect in 2020. This will be achieved even under a worst case scenario, assuming a 15% decline in volumes for the rest of the year.

The message that was relayed on the call is a very positive one. Canadian National Railway's "network and structural advantages" as well as its strong balance sheet should ensure long-term success.

## Foolish bottom line

The bottom line is that Canadian National Railway remains extremely resilient, with the same strengths that were always there. It has a wide moat, little competition, and a business that is essential to the functioning of the Canadian economy. Canadian National Railway stock is one I would buy now and at any time of stock price weakness.

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