Why the Canadian National Railway (TSX:CNR) Stock Price Lagged the TSX Index in April

Description

The fact that **Canadian National Railway Inc.** (TSX:CNR)(NYSE:CNI) stock lagged the **TSX Index** in April comes as no surprise. As a backbone of the Canadian economy, the railway's fortunes are closely tied to economic activity. Newly released Canadian GDP showed it was flat in February, signalling trouble even before the coronavirus hit. The coming months will be brutal due to the shutdown.

Canadian National Railway's stock price rose 4.6% in April. This compares to the TSX's rise of 10.5%. This makes sense to me. I think the fact that the stock was even up in April is a pretty positive sign. It is certainly a testament to the quality of the company, its competitive positioning, and its financial strength.

Canadian National Railway's stock price lags the TSX Index as economic activity plummets

Canadian manufacturing is at record lows and consumer confidence is shaken to its core. And, oh yes, the economy is still pretty much shut down. How does this manifest for a company like Canadian National Railway?

Well, North American auto manufacturing is shut down. In 2019, the automotive industry accounted for just over 6% of Canadian National Railway's total revenue. In the first quarter of 2020, the company experienced a 9% drop in automotive revenue. The coronavirus disruptions, which only began at the end of the quarter, caused this decline. As at the end of April, management noted that automotive volumes were down 90%. We can imagine what the second quarter has in store for CN's automotive business.

The oil and gas industry is also going through unprecedented turmoil. Oil prices are under $20 after an historic fall. Canadian National Railway's crude-by-rail business is being hit hard. This business will continue to be hit in the second quarter. Crude oil prices need to be in the mid-$20 range for it to be viable.

As of late April, company-wide volumes were down 15%. Everything is still very uncertain at this time. Governments are starting to talk about a gradual re-opening of the economy, but visibility is extremely low. As a result, the company withdrew its 2020 guidance.

Canadian National Railway stock will benefit from diversification

There are a few things that we know for sure. We should probably focus on those. First, Canadian National Railway's stock benefits from diversification. The company has exposure to many industries aside from the hardest hit ones. The coal, grain, and fertilizer industries are examples. Another segment is the intermodal business. This business is one where CN sees the potential for growth and market share gains. At this time, this business is benefitting as it remains key in the movement of essential goods.

Grain and fertilizer volumes account for 18% of total revenue. Coal accounts for 4%. Management expects record grain and coal volumes in the second quarter. This gives us a glimpse into the benefits of diversification.

At the end of the day, the strengths of Canadian National Railway stock remain the same even in this environment. Its industry has limited competition, high barriers to entry, and is essential in the movement of goods. This crisis has placed economic growth and demand into question. But this is a temporary interruption. While these types of shocks are not pleasant, they are not permanent. We can use this time of uncertainty to add to our positions in quality stocks, such as CN Rail stock.

Foolish bottom line

Looking beyond the short term, Canadian National Railway stock still has an attractive investment profile. Canadian National Railway's "network and structural advantages" as well as its strong balance sheet should ensure long-term success. CN's strong financial position will help the company survive this crisis.

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