Here’s My Top Stock to Buy in June

Description

Heading into June, there are plenty of TSX stocks still on sale after the COVID-19 market crash. While stocks aren’t as cheap as they were last month, they’re still down from all time highs. For those with long-term horizons, now might be a good time to buy.

With that said, it really depends on *what* you buy. With airlines facing insolvency and banks bracing for colossal defaults, there are plenty of stocks you’ll want to avoid in the year ahead. The following is one stock you can buy in June and enjoy reasonable success with going forward.

The Canadian National Railway

Canadian National Railway (TSX:CNR)(NYSE:CNI) is Canada’s largest railway company. It ships over $250 billion worth of goods annually across Canada and the United States. Its network touches three coasts, giving it an edge over competitors with smaller service areas.

The big news out of CN this year was a surprise Q1 earnings beat. Revenue was basically flat, but earnings rose 31% year over year. That’s despite numerous service disruptions due to rail blockades and COVID-19. The company managed to grow its earnings because of lower costs and increased operational efficiency.

What these earnings show is that CN can thrive in good times and bad. While railways are generally cyclical, improved efficiency can open the floodgates of profit, even when revenue is flat. That’s exactly what we saw with CN in Q1, which is good news for long-term shareholders as we head into a recession.

How it fared during the market crash

During the COVID-19 market crash, CNR, like most stocks, tanked. However, it recovered quickly.

On February 20 — generally recognized as the beginning of the market crash — CNR traded for about

$122. By March 16, it reached a bottom of $95.6. That's a 22.75% decline. By contrast, the TSX fell 37% top to bottom. By mid-April, CNR was rising again. As of this writing, it traded for $117.7. Year to date, it's down a miniscule 1.4%.

What all this shows is that CNR fared better than the average TSX stock in the COVID-19 market crash. Not only did it fall less, but it recovered faster than most of its peers. This reflects the market's optimism toward CNR, a resilient company that can grow its earnings, even when revenue is flat.

What the future holds

Looking into the future, CNR clearly has several good years ahead of it. The company ships a lot of grain, coal, and petroleum, which will always be in demand. The crude-by-rail business could come under threat if delayed pipeline projects eventually go ahead. Even then, the company could profit with its intermodal services.

With all that said, I wouldn't call CNR a "buy-and-forget" pick. There are enough risk factors that could make the stock less attractive than it is now. Prolonged economic weakness in North America, further Trumpian trade wars and reduced demand for crude are among them. So, CNR is a good stock to buy and hold for the medium term, but not one to get married to.

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