



CN Railway (TSX:CNR) Walks Off COVID-19 and Ships Record Grain

Description

We may be in the midst of a recession, but not all sectors of the economy are struggling.

Last week, **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) announced that it broke a record in June, shipping 2.7 million tonnes of grain. The company also broke records for the first half and second quarter, with 15 million and 8.15 million tonnes shipped, respectively.

The news came after a difficult period for CN, including rail blockades, delayed grain harvests, and COVID-19 lockdowns. In Q4 fiscal 2019, CN's grain shipments were disrupted by bad weather that resulted in 20-30% lower grain harvest than normal. The company's latest news shows that it's starting to recover from that and other headwinds it had been facing. In fact, it may be headed for a record-breaking second quarter.

Solid Q1 results

Even with all the headwinds it was facing, CN Rail [delivered solid results in Q1](#). The company's revenue was flat, which is itself a respectable result compared to many other companies in the same period. But the real story was earnings. Thanks to lower costs and higher rates, CN was able to grow its earnings 31% (GAAP) in the first quarter. Adjusted earnings growth was lower at 4% but still solid given the circumstances.

Taken as a whole, these earnings show that CN Railway is a resilient company that can survive economic downturns. Generally, rail is a cyclical industry that rises and falls with the broader economy. CN's Q1 revenue corroborates that; however, its earnings growth shows that it has many tricks up its sleeve to improve profitability.

Will it have an even better second quarter?

With news of CN's record grain shipment following a solid first quarter, it's natural to wonder whether Q2 will be even better. In fact, there are plenty of signs indicating that it will be. First and foremost, the

company's press release announcing its record grain shipments called Q2 its ["best quarter ever."](#)

The sentence was ambiguously written; it's hard to tell whether the company was referring to overall results or just grain. However, grain is a large component of CN's total revenue. In Q1, grain provided CN with \$610 million in revenue out of \$3.2 billion in total. That's 19%. A major jump in just that one component of the business, therefore, could easily drive significant revenue growth. That combined with lower costs and higher freight rates could in turn lead to a winning quarter.

Foolish takeaway

CNR has long been one of Canada's best-performing dividend stocks. Backed by solid fundamentals and an indispensable industry niche, it has delivered value to shareholders year after year. In 2020, the company has shown that it's resilient enough to walk off crisis-level economic headwinds without a scratch. While CN's Q2 results aren't out yet, we've got many indications that they'll be good. If they are, that's just another indication that CNR stock will continue to be a strong performer in the years ahead.

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