Should You Buy CN (TSX:CNR) Stock Right Now?

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) just reported Q2 2020 results that give investors a sense of how the economic recovery is progressing.

Let's take a look at the current situation to see if CN deserves to be on your buy list today.

Earnings

Revenue came in at $3.2 billion in the quarter compared to $3.7 billion in the same period last year. Adjusted net income was $908 million compared to $1.25 billion.

Adjusted earnings per share slipped to $1.28 from $1.73 in Q2 2019.

CN responded quickly to the drop in volumes caused by pandemic lockdowns over the past few months. The company laid off roughly 4,000 employees, of which a quarter of the job cuts are permanent, while about 3,000 are on furlough and can be recalled as the economic situation improves.

In addition to staff reductions, CN removed 14,500 rail cars from service.

The resulting cost cuts helped the company generate $1 billion in free cash flow in the quarter, despite the challenging environment.

CN said grain and fertilizer shipments remained steady during Q2, helping offset weakness in other areas of the business. Sales dropped in all other segments, ranging from a 72% decrease in revenue from automotive shipments to a 12% drop in intermodal revenue.

Outlook

The company said it is seeing signs of improvement in freight demand, especially in the automotiveand lumber segments, and will slowly add rail cars back to the fleet. Workers will be recalled as well to manage the increased demand.

The company plans to spend $2.9 billion in 2020 on capital projects, including the purchase of 1,500 new grain cars that will go into service next year.

As the global economy continues to reopen, CN should see international shipments improve. Domestic freight in Canada and the United States should also return to normal levels, as the provinces and states move along their reopening programs.

The resurgence of the coronavirus in the United States could slow the pace of the recovery. Stalled opening of the economy or a return to lockdowns would be negative for CN in the near term.

Dividend

CN has a long track record of dividend growth. The board raised the payout by 7% earlier this year. The compound annual dividend-growth rate is about 16% since the company went public in the 1990s.

Investors should see the payout continue to increase at a steady pace.

Should you buy CN now?

The stock trades close to $128 per share. That’s not far off the all-time high of $130 it hit in recent days. Investors who’d bought the March dip below $95 are already sitting on decent gains.

The stock appears fully valued right now, but it still deserves to be a core holding for a buy-and-hold TFSA or RRSP portfolio. Any weakness should be viewed as an opportunity to add to the position.

CN serves a key role in the smooth functioning of the Canadian and U.S. economies and will grow in step with economic expansion. It is the only rail company in North America with tracks connecting three coasts. This is a competitive advantage that should remain in place.

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