CN Rail (TSX:CNR): A Dividend Growth King That's Just Getting Started!

Description

CN Rail (TSX:CNR)(NYSE:CNI) is known by many as North America's most efficient railway for a reason. The legendary dividend grower keeps finding ways to raise the efficiency bar on itself, regardless of the shape of the economy. CN Rail is capable of bucking the trend and improving upon its operating ratio, even under the harshest of conditions.

Over the past year or so, CN Rail has suffered through quite a bit. Rail blockades, union strikes, a slowing of the Canadian economy, and the COVID-19 pandemic have all taken a toll. But despite the setbacks, the company has been able to rise above them — and likely much faster than most other rails thanks to its exceptional stewards led by CN CEO J.J. Ruest.

CN Rail: Resilience and a wide moat

CN Rail is the ultimate wide-moat dividend-growth stock. I believe it's a must-own foundation for any Canadian portfolio that aims to achieve above-average, market-beating results over the long-term. Anytime the stock dips, you should aim to buy more shares for your Tax-Free Savings Account (TFSA) regardless of what's weighing them down over the near- to intermediate-term.

Of all wide-moat firms, CN Rail probably has some of the highest barriers to entry. It's these barriers that protect the company's ability to generate consistent economic profits over time.

More recently, CN Rail has been feeling the effects from the slowdown of Canadian economy as a result of the insidious COVID-19 pandemic. Given all the headwinds I mentioned previously, you'd think that a socio-economic disaster such as COVID-19 would derail CN Rail, as rail volumes plunged in conjunction with the nation's quarterly GDP.

As it turned out, the firm was, again, more than effective at weathering the headwinds, with another quarterly earnings beat in the second quarter.

CN Rail: A tough quarter that wasn't as bad as expected

CN Rail's top-line fell 19% year over year for the quarter, as total carloads plummeted 16%, with pronounced weakness in intermodal and auto volumes. Given the profound disruption of COVID-19, you'd think the company's operating ratio would take several steps back.

While the operating ratio rose 290 basis points to 60.4% (lower is better), it could fall back to the mid-50s in 2021 as the economy continues inching closer towards normalcy.

Amid the pandemic, guidance will be cloudy and share repurchases will be off the table. But if you're looking for a stock that could bounce back in a big way once this pandemic concludes, CN Rail could be the way to do it.

With a vaccine potentially in the cards by mid-2021, I'd say CNR shares could come roaring back well before the economy shows signs of a more meaningful recovery. In the meantime, the company will continue rolling along, making appropriate investments as they come along.

More recently, CN Rail noted that it's strategically investing US$50 million and US$60 million in Mississippi and Louisiana, respectively, to "support growth" and "enable supply chains" across both states. The latter investment is to be used as part of a multi-year project and should fuel meaningful long-term growth from the market as this pandemic subsides.

What about valuation?

Despite the recent breakout in CN Rail stock, I find the stock to be undervalued given its bounce back potential in next year's economic recovery from COVID-19.

At 6.5 times sales, CNR may not be the cheapest stock on the planet, but relative to the resilient growth you're getting, I'd say it's well worth buying.

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Date
2025/08/03
Date Created
2020/07/28
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