



## I'm Buying More CN Rail (TSX:CNR) Before the Canadian Economy Recovers

### Description

**CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) is one of those wide-moat stocks that you can [buy and forget](#). The company has outperformed the **TSX Index** over the long haul. With high barriers to entry protecting the firm's ability to generate economic profits, more of the same can likely be expected over the next 10, 20, or even 30 years.

That makes CN Rail stock a must-buy on any form of weakness because time and time again, North America's most efficient railway has bounced back from economic disruptions [stronger](#) than ever before. And this time, I believe, will be no different.

Despite being an economically-sensitive company, CN Rail has held its own far better than most other TSX-traded securities during market crashes. Whenever the world economy falls into a recession, you'd think that the company would feel the full force of the headwinds.

Given the company's demonstrated resilience and its knack for bucking the trend, by improving upon its efficiency metrics (such as the operating ratio) during the most difficult of times.

### Resilience at its finest

Just consider the tough hand that CN Rail has been dealt over the past year. Rail blockades, Teamster strikes, and economic stagnation, all weighed on the Canadian railways. And CN Rail was able to recover from each headwind a lot quicker than most would expect.

When it comes to COVID-19 pandemic headwinds, I'm betting on another abrupt recovery that could surprise the skeptics once again.

While the stock market has gone on to post a V-shaped recovery, the economy is still in a fragile position. And although CN Rail stock has begun to pick up traction, we may not have seen anything yet if Mr. Market is right, and the world economy is due for a quick recovery from this unprecedented crisis.

I'd buy CN Rail stock now rather than waiting for the next correction because, like it or not, the

company is ready for carloads to recover sharply and its efforts to improve upon operational efficiency could amplify a potential rebound in conjunction with the Canadian economy.

While CN Rail had a mixed second quarter, there was evidence that the worst may already be in the rear-view mirror, as there was a sequential improvement in carloads in June. While the second quarter saw CN Rail's operating ratio rise 290 bps to 60.4% amid declining carloads, I see an opportunity for the railway to reduce it to the mid-50s in the event of an economic rebound.

## What about the valuation of CN Rail stock?

As the North American economy gradually heals from this pandemic over the next year, CN Rail stock could easily find itself at \$150. At the time of writing, shares of CNR trade at 4.98 times book value, 6.66 times sales, and 15.87 times EV/EBITDA, all of which are slightly higher than that of the stock's five-year historical average multiples of 4.63, 5.78, and 12.48, respectively.

CN Rail stock is not cheap here based on traditional valuation metrics. If you're in the belief that the Canadian economy will be in for a significant rebound in 2021, though, CN Rail could be in for some sizeable multiple compression, as EPS numbers could be in a spot to surge.

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