CN Rail (TSX:CNR) Is a Must-Buy for the Post-COVID Economy

Description

CN Rail (TSX:CNR)(NYSE:CNI) has been demonstrating tremendous resilience amid this unprecedented coronavirus disease 2019 (COVID-19) pandemic. The railroad kingpin we know as North America's most efficient railway has been doing its part to lift the Canadian (and American) economies out of the depths. Heading into 2021; CN Rail and its stock will likely continue rolling along as it looks to improve upon its operating ratio further.

The top-tier railway has historically outperformed during past crises. The company has been through its fair share of black swan events and recessions, rising out every time while enduring far less damage versus the broader indices, including the likes of the sluggish **TSX Index**. Over the long haul, CN Rail has crushed the TSX.

Thanks to the high barriers to entry that protect its ability to rake in high economic profits, this outperformance is expected over the next decade and beyond, making CNR stock a must-buy on any weakness.

CN Rail worthy of the premium price tag

With shares of CNR up nearly 50% since its March 2020 lows, shares are trading at a mild premium as far as traditional valuation metrics (like the P/E ratio) are concerned.

Given the V- or K-shaped economic recovery that lies over the next two years, though, I'd argue that CNR is worthy of a hefty premium given that it's going to be ridiculously busy hauling rebounding volumes from place to place. It's not just the bouncing back in carloads that has me bullish on the name, though. CN Rail has exceptional stewards running the show, and management has positioned the company such that it's ready to haul more than its fair share of loads in the post-COVID world.

CN Rail: Well positioned for the post-COVID economy

In the first half, CN Rail's operating margins took a modest step back thanks in part to falling volumes.

CN's operating ratio moved above the 60% mark (lower is better), which was pretty much expected by analysts covering the name. With the tides turning in 2021 and beyond, CN Rail has a tonne of room to make up for lost time by improving upon its operating efficiencies, as it looks to prove why it's worthy of the title of North America's most efficient railway.

Although CN's management team doesn't expect it will bring resources back on a "one-for-one basis," the company is well positioned for massive bottom line beats over the next year, as carloads and efficiencies metrics (CN Rail's operating ratio could fall back to the mid-50s as soon as next year) both look to improve drastically.

More recently, CN Rail pulled the curtain on its 2020-21 Winter Plan, which shed light on new and old investments in addition to "innovative" measures that will help the firm better operate through extreme weather conditions. The Winter Plan reinforces CN Rail's tremendous resilience and has me pounding the table on a name that I believe could be headed to $170 by the conclusion of next year.

Foolish takeaway

CN Rail is the epitome of operational resilience, having held its own in the face of Teamster's strikes, rail blockades, and, most recently, the COVID-19 pandemic. At north of seven times sales, CN Rail is not a cheap stock, but it's not cheap for a very good reason!

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Stocks for Beginners

Date
2025/08/21

Date Created
2020/10/01
Author
joefrenette