



Canadian National Railway Q3 Earnings: Your Biggest Questions Answered

Description

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) reported its Q3 earnings yesterday. Not surprisingly, the results were weaker than last year, as revenue and earnings both got hit. Despite this, a closer look at the details provides a more bullish picture. This, taken together with management's comments, has provided some real answers.

Here are the answers to your biggest questions and concerns regarding the sustainability of Canadian National Railway's market-beating run.

Canadian National is seeing a good recovery and solid momentum in Q3 and beyond

Canadian National Railway [stock is trading near 52-week highs](#). This might have some of us confused. Isn't the economy suffering? Aren't there real problems in this pandemic? Yes and yes. So, how is CN Rail stock performing so well?

Firstly, relative to the second quarter of 2020, Canadian National is doing well. Sequentially, revenue is up 6% and earnings are up significantly. And cash flows remain strong.

Canadian National is seeing momentum in some of its business segments. CN's grains and fertilizer segment, which represents 18% of revenue, was up 10% relative to last year. In fact, this was the best Q3 on record for this segment. Forest products is another strong segment that has been ramping up sharply.

As the Canadian economy finds its way back from the abyss, Canadian National Railway will be there to support it. The Canadian railways transport more than \$250 billion of goods annually from a diversified list of sectors, such as the resource sector (grain crops), crude oil, manufactured products, and consumer goods.

For its part, CN Rail has the diversity and the competitive positioning to weather this pandemic storm

successfully. The company's strength and CN Rail stock's strong performance are testament to this fact.

Canadian National Railway: Doing more with less

Part of Canadian National Railway's strength has been its ability to drive efficiencies. To this end, management has succeeded in permanently taking out costs in the railway's business. And this means that they are doing more with less, driving value for all of its stakeholders.

Structural improvements and improving fuel efficiency are going a long way in reducing costs. From virtual training to automated track inspection to automated inspection portals, CN Rail is increasing its use of technology. This will lower costs and improve performance and productivity. In fact, productivity has already improved up to 25% because of structural improvements made while activity was lower.

CN Rail management fully expects to achieve over \$2.5 billion in free cash flow this year

Finally, through all of these challenges and successes, CN Rail [continues to drive cash flows](#). Simply put, Canadian National Railway is a cash flow machine. On the earnings conference call, management reaffirmed its strong confidence in its ability to achieve over \$2.5 billion in free cash flow this year. This is huge. In a time of crisis, this shows the strength of the CN business model and operations.

Motley Fool: The bottom line

In closing, Canadian National Railway continues to address any questions we may have regarding its attractiveness as a stock to buy. The proof is in the results. Despite this very difficult pandemic health and economic crisis, Canadian National continues to move forward at an impressive pace. The company has a wide moat, little competition, and a business that is essential to the functioning of the Canadian economy.

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