CN Rail (TSX:CNR) Is a No-Brainer Buy for Your TFSA on the Dip

Description

Don't look now, but **CN Rail** (TSX:CNR)(NYSE:CNI) is under pressure, shedding nearly 5% of its value in Wednesday's brutal trading session, bringing the stock into correction territory, with its 12% peak-to-trough decline. Wednesday's sell-off was pretty vicious, and while it may not be over, I think it makes a tonne of sense for TFSA investors to accumulate shares of the wide-moat railway on the latest dip.

What caused CN Rail stock to plunge harder than the broader markets?

CN Rail took a one-two hit to the chin courtesy of a bunch of sell-side analysts, many of whom slapped the firm with price target downgrades on the name following an underwhelming fourth quarter, which actually beat modestly on the EPS front. The numbers themselves were actually pretty decent, but investors were not at all happy with CN Rail's 2021 guidance.

CN Rail clocks in a solid quarter; shares plunge

The company saw total revenues rise a modest 2% year over year while operating expenses dropped 4%. The operating ratio (lower is better) improved by 380 bps to 61.4% thanks to solid cost controls. With an economic recovery on the horizon, I believe CN Rail has much room to further compress its operating ratio, perhaps to the mid-50s. Intermodal revenues were also up an impressive 12% year over year.

Things certainly seem to be looking up for CN Rail stock, as it climbs out of the COVID-induced rut. I would have thought the stock would have traded in line with the stock market following the modest beat if it weren't for management's meagre guidance.

The company now sees adjusted EPS growth for 2021 in the high single digits alongside volume growth in the mid-single digits. Given the recovery trajectory, such muted growth numbers are pretty disappointing. I think they're overly cautious given the profound amount of uncertainties that still exist.

While a handful of effective COVID-19 vaccines could put an end to the horrific pandemic in the latter half of the year, there are still numerous unknowns, most notably the potential impact of more infectious variants or logistical challenges involved with mass inoculation.

CN Rail's muted guidance entices analysts to set the bar low

While there is more clarity on the vaccine timeline, things can still go wrong. And I believe management is erring on the side of caution with their guidance by setting the bar low for coming quarters. In my view, CN Rail is ripe to buy after its disappointing guidance, as I'd rather be in a name that can more easily pole-vault over expectations than one with a bar that's set so high such that a record, blowout quarter wouldn't be enough to move a stock higher.

Take **Apple**, which recently clocked in an incredible quarter that saw north of US$100 billion worth of revenues for the first time in its history. Yet the stock plunged 3.2% in the after-hours. Why? The bar was too high, and people were probably betting on blowout guidance or something of the sort.

Foolish takeaway

With CN, the bar has been lowered substantially by sell-side analysts, providing long-term TFSA investors with a golden opportunity to buy shares at a nice discount. While the road to post-pandemic normalcy will probably be a bumpy one, I suspect CNR stock will be better able to hold its own come the next market crash, as it's already corrected. CN Rail stock is unloved, and I think it's too cheap to ignore after the recent guidance-driven sell-off.

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