CN Railway (TSX:CNR) Stock Is on Sale in February!

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) released its earnings for the fourth quarter and full year last week. Fourth-quarter earnings were a slight beat on both revenue and EPS. Yet the stock declined, falling 5% from the earnings release date to the time of this writing. In the fourth quarter, CNR's revenue was up 2%, and its earnings were up 14%. So, CNR's financials improved while its stock price declined. This certainly looks like a bargain. But before we jump to conclusions, let's take a look at those earnings in detail.

Slight earnings beat

CN Railway recently released solid fourth-quarter earnings, with the following metrics outperforming analyst expectations:

- Revenue: $3.65 billion vs. $3.58 billion consensus.
- EPS: $1.43. In U.S. dollar terms, earnings were US$1.10 compared to a $1.08 consensus. I've stated both Canadian and U.S. dollar figures here, because most estimates came from U.S. firms with U.S. dollar estimates.

So, CN beat on both revenue and earnings. The growth rate in revenue wasn't that high, but that's not necessarily bad news. The railroad industry has a lot of areas where efficiency can be improved, so earnings can continue to grow on only tepid revenue gains for a long time.

Why the decline?

Normally, when a stock beats on earnings, you expect its price to go up. Stocks are priced based on what investors — mostly institutional investors — expect. CN Railway beat their expectations, so why the decline?

There are a few possible explanations:

- **Broad market momentum:** Last week was a bad one for stocks *as a whole*, with the S&P 500 down 3.6%. Stocks correlate with other stocks, and an earnings beat won't usually save a company from a market-wide selloff, unless it was particularly big. CNR only *slightly* beat on earnings in the fourth quarter, so it's not surprising that it would move with the broader market.
- **Investors moving into value stocks:** Lately, many investors have been moving out of "COVID-19 winner stocks" and into cheaper stocks that got beaten down amid the pandemic. Stocks that quickly soared to new highs after the pandemic — like CN Railway — are seen by many as being overvalued at today's prices. With the vaccine rollout underway, there is perceived value in beaten-down sectors like energy and airlines. If investors sell out of stocks that rose during the pandemic to make these buys, then that will send the prices of more expensive stocks lower.

Foolish takeaway

Today, we're starting to see CN Railway post positive year-over-year earnings growth for the first time since the COVID-19 pandemic began. Yet its stock is actually trending lower. That might seem confusing, but it's actually pretty easily explained. It largely comes down to momentum in the broader market, and possibly, investors selling the stock to buy undervalued assets. Despite lower earnings, CNR performed extremely well during the pandemic. Some profit taking at today's prices is to be expected.

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