3 Big Reasons to Buy Canadian National (TSX:CNR) Stock After its Q2 Earnings

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) announced its Q2 2021 results on Tuesday after market close. During the quarter, the company's adjusted earnings rose by 16.4% to $1.49 per share — meeting Street analysts' consensus estimates. Higher commodity volumes, the ongoing economic recovery, and a rise in freight rate boosted CN's results in the last quarter. The company has a long track record of posting consistent growth in its earnings. That's why its stock is considered extremely reliable even in uncertain times.

Let's dive deeper into Canadian National's latest results that give long-term investors several reasons to buy this amazing **TSX** stock today.

Surging revenue

In Q2, Canadian National's revenue saw currency headwinds due to the strengthening Canadian dollar. Also, lower export volumes of Canadian grain hurt its latest quarterly revenue. Despite these negative factors, the company managed to report a 12% YoY (year-over-year) increase in its second-quarter total revenue to $3.6 billion. Surging overall commodities demand amid the ongoing economic recovery led to higher volumes, while the recent increase in freight rates boosted its total revenue further.

Interestingly, CN's freight rates improved by nearly 1% from a year ago, boosting its freight revenue per carload by nearly 7% YoY, as its same-store pricing also jumped by more than 4% in Q2.

Expanding profitability

In the last quarter, Canadian National's profitability expanded, as it reported an adjusted net profit margin of 29.9% — much stronger than only 28.3% a year ago and 29.4% in the previous quarter. Apart from higher freight rates, its improved fuel efficiency and average intermodal train density helped the company post stronger margins in the second quarter. While its Q2 fuel efficiency improved by nearly 2% from a year ago, it shipped about 6% more containers per train, boosting its average intermodal train density.

In contrast, currency headwinds and rising fuel prices were the two key factors that affected CN's incremental margins in the last quarter.

Bright future growth prospects

Surging overall commodities demand, better freight rates, and improving fuel efficiency are boosting CN's revenues and helping the company expand its profitability. However, these positive factors are not the only reason that makes its stock worth considering for long-term investors right now. If CN's proposed merger bid with **Kansas City Southern** is approved, CN's financials are likely to improve at a faster pace in the coming years.

While highlighting the benefits of this merger on Tuesday, CN's CEO Jean-Jacques Ruest said, "Together, CN and KCS will be able to recognize great synergies targeting $1 billion of EBITDA synergies primarily from growth."

Final thoughts

After facing severe operational challenges during the pandemic phase, Canadian National's 2020 adjusted earnings fell by nearly 8.5% YoY. Nonetheless, analysts expect its 2021 earnings to rise beyond 2019 levels with the help of surging demand and a booming economy. Moreover, CN's predictable and consistently growing earnings allow it to reward its investors with regular dividends, even in uncertain times, like an economic recession. Despite all these positive factors, its stock is still trading with about 7.3% year-to-date losses at $129.79 per share. That's why you may want to add this reliable dividend stock to your portfolio today before it starts rallying.

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jparashar