CN Rail Stock Could Correct to the Upside

Description

There's no sense in waiting around for the next market correction, not while shares of blue-chip dividend grower **CN Rail** (TSX:CNR)(NYSE:CNI) are already off 12% from their all-time highs. Moving forward, the TSX Index is likely to continue moving higher on the back of robust commodity prices and what could be some explosive earnings growth. So, if you're sitting on a big pile of cash waiting for a 10% drawdown in the TSX, you could find yourself sitting on the sidelines for far longer than you'd expect.

As a self-guided stock picker, you can uncover sector-based or stock-isolate corrections and bear markets, even as the stock market continues blasting off to make new highs on the weekly. That's the greatest edge that a stock picker possesses. For passive investors, all one can do is throw money at an index fund or ETF and hope it continues its ascent. Undoubtedly, passive investing can yield some pretty decent results over time, especially versus "risk-free" investment instruments.

That said, by settling for the TSX or **S&P 500**, you'll be settling for average. And you won't be able to gain an edge of the indices when isolated selloffs go off in the background. Yes, being a stock picker takes more work. And yes, it can, at times, be more painful than just owning the broader indices. But in an environment like this, where corrections roll through various sectors, I think a contrarian strategy can really give one a total-return advantage.

So, if you consider yourself a stock picker and not a passive investor, don't wait for a broader market correction. Have a look under the hood and find the unjust corrections in names you'd love to hold for decades at a time.

TSX Index at new highs; CN Rail stock in a correction

Right now, it's tough to match the value proposition in CN Rail stock. It's one of the bluest blue chips on the Canadian index, with many decades' worth of TSX-crushing results. Thus far in 2021, CN Rail stock has really sagged, thanks in part to COVID's impact and scrutiny over the company's acquisition of southern railway **Kansas City Southern**.

CN Rail has been quite volatile in the J.J. Ruest era. Undoubtedly, CN stock has endured corrections on what seems to be an annual basis over the past few years. If you bought on each dip, you enjoyed a nice "correction to the upside," as near-term worries faded and earnings had a chance to dictate the stock's trajectory again.

At the end of the day, it's all about the fundamentals. Despite recent CN-KSU concerns, I suspect CN stock will blast off again, rewarding those who stuck by it, as most others gave up.

A mild earnings beat for Q2

Most recently, CN Rail revealed its second-quarter results, which was a pretty mixed bag. Adjusted EPS of $1.49 beat the Street by a penny, while operating income came in pretty muted. On the guidance front, management still expects double-digit EPS growth in 2021. If the Delta COVID variant doesn't derail North America's reopening, I think CN Rail could blow away the results in the latter two quarters of the year.

With the KSU merger up in the air, I'd look to accumulate shares of CN stock today, as I think most of the concerns relating to the deal (approved or not) are already baked into shares.

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