What to Watch for in the CNR (TSX:CNR) Stock Earnings Report This Week

Description

Earnings season is upon us, and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) will be reporting its earnings on Oct. 19 this week. Let's look at what investors can expect, especially after the tumultuous year the company has had.

Unaware? Let me update you

CNR stock came out of a battle to be the largest railway in North America on the low end. Or at least, that's how management looks at it. Investors, not so much. CNR stock was set to invest US$29.6 billion to buy **Kansas City Southern Railway**. The deal would allow the rail line to stretch from Canada down to Mexico. It would also hit several oil and gas and agriculture routes that would have increased revenue.

But that is a *heck* of a lot of cash, and, frankly, investors and fund managers were unimpressed — so much so that there was talk of ousting the executives to replace them with new ones that would better suit shareholder needs.

And it's not like this has suddenly gone away. The Surface Transportation Board (STB) in the U.S. may have decided against the deal for CNR stock, but that didn't mean it had no problems to deal with. The issue became that the deal could have happened in the first place, which could have sent the company into loads of debt it couldn't manage.

What now?

This earnings season, CNR stock investors will have to look at several signs of life for the company. Yes, it's good it now has money on the books. But how is the company going to spend it? Can we trust executives to make decisions that are in the best interest of shareholders?

Furthermore, it's already not been the best year for CNR stock, and that could worsen, according to analysts. Weaker traffic demands from low grain supply, the semiconductor shortage lowering automaker deliveries, and supply chain issues in general will hurt earnings.

Analysts now have an average earnings per share guidance of $1.41 for the third quarter. This would represent growth of 34% year over year and 19% quarter over quarter. That's definitely solid growth, with the pandemic recovery underway.

Foolish takeaway

Here's the thing: short term, it might not be a great time for CNR stock. In fact, should earnings fall below estimates — which could happen — then there is likely to be a drop off in share price. In fact, most analysts recommend simply holding the stock for now, as it trades around fair value.

Current fundamentals sit at a 5.1 price-to-book ratio, 26.2 price-to-earnings ratio, and 15.7 EV/EBITDA. So, it's not a value stock at this point. Growth has been relatively stable, with the stock not doing much since the news that it lost the deal hit headlines.

With management potentially being upended, supplies lowered, and its future unclear, it may not be the best time to buy CNR stock. But that's not to say there won't be a good investment in the future.

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