



Canadian National Railway: 1 Blue-Chip Stock to Buy in April

Description

While equity markets have dragged lower year to date, there are a few stocks trading near 52-week highs. One such [blue-chip stock](#) listed on the TSX is **Canadian National Railway** ([TSX:CNR](#)) ([NYSE:CNI](#)), which has gained 18% in the last year.

Canadian National Railway has been a solid wealth creator for long-term investors and has returned 406% in dividend-adjusted gains in the last 10 years. Comparatively, the S&P 500 has gained 300% in this period.

Investors should consider increasing exposure to blue-chip stocks in a turbulent market, given companies are wrestling with higher commodity prices, interest rate hikes, geopolitical risks, and much more. Let's see why CNR stock should be part of your portfolio right now.

The bull case for Canadian National Railway

Canadian National Railway is one of Canada's largest companies and is valued at \$119 billion by [market cap](#). It is engaged in the rail transportation business and transports goods including petroleum and chemicals, grain and fertilizers, coal, forest products, metals, minerals, and automotive products. Canadian National Railway operates a network of 19,500 route miles spanning across the U.S. and Canada.

In Q4 of 2021, Canadian National Railway increased adjusted earnings by 20% while its adjusted operating ratio stood at 57.9%. It reported free cash flow of \$3.3 billion at the upper end of management guidance. The company attributed earnings-per-share growth to pricing and cost initiatives.

Canadian National Railway remains optimistic about increasing earnings per share by 20% in 2022 while free cash flow is forecast to touch \$4 billion. Its capital envelope for 2022 is estimated at 17% of revenues.

Dividends and valuation

In the last five years, Canadian National Railway increased earnings per share at an annual rate of 8.8%. The earnings expansion allowed CNR to increase its dividends by 12% annually since 2017. It currently pays investors an annual dividend of \$2.93 per share, indicating a forward yield of 1.72%.

During the company's Q4 earnings call, CNR increased dividend payouts by 19%, which was the 26th consecutive year of increases. The board of directors also approved a share-buyback program worth \$5 billion. This capital program will be executed between February 2022 and January 2023.

Analysts tracking CNR stock expect sales to rise by 7.7% to \$15.6 billion in 2022 and by 6.7% to \$16.64 billion in 2023. Comparatively, its adjusted earnings per share are forecast to increase at an annual rate of 10.5% in the next five years.

So, CNR stock is valued at a forward price-to-sales multiple of 7.8 and a price-to-earnings ratio of 24, which is quite reasonable.

The Foolish takeaway

Canadian National Railway is the undisputed leader in the North American rail segment. Its network of lines connects ports on three coasts and serves key segments of the economy. The company has generated cash flows and profits across business cycles, allowing it to increase dividends over time.

An investment of \$10,000 in CNR stock 25 years back would be worth \$600,000 right now, after accounting for dividend reinvestments. There is a good chance that Canadian National Railway will continue to outpace the broader markets in 2022 and beyond.

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