CN Rail Stock: Why it Missed Q1 Earnings Estimates

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) announced its March quarter results on Tuesday after the market closing bell. While the rail company managed to meet analysts' revenue estimates for the quarter, its adjusted net profit missed expectations. This could be one of the main reasons why CNR stock fell by well more than 5% on Wednesday morning to as low as $148.41 per share — its lowest intraday level since October 2021. While CN Rail stock staged a recovery later during the session, it was still down by more than 2% for the day.

Before we take a closer look at what lies ahead for CN Rail stock, let's take a closer look at its latest quarterly numbers.

CN Rail posts higher revenue despite lower volumes

In the first quarter, Canadian National Railway's volumes on a revenue-tonne-miles (RTMs) basis fell by about 8% from a year ago. While the company denied demand issues, it blamed extreme winter conditions in the first two months of the year, supply chain issues, and a weak Canadian grain crop for its lower volumes in the last quarter.

Despite lower volumes on an RTM basis, CN Rail managed to post a 4.9% YoY (year-over-year) increase in its total revenue in the last quarter to $3.71 billion — also slightly higher than analysts' estimate of $3.68 billion.

What affected CN Rail's earnings in Q1?

CN Rail's adjusted operating profit in the March quarter this year rose by around 4% YoY to $1.24 billion. Similarly, its adjusted net profit for the quarter rose by 6.1% YoY to $925 million. However, its bottom-line numbers fell more than 5% short of Street analysts' expectation of around $978 million.

Apart from its lower revenue due mainly to factors such as supply chain disruptions and harsher winter weather, higher operating expenses also affected its profits in the last quarter. Notably, CN Rail registered a 12% YoY jump in its operating expenses in Q1 2022 to around $2.48 billion. Despite the lower average headcount, this increase in the Canadian rail giant's expenses was primarily driven by the recent rapid rise in fuel prices.

CNR cuts 2022 EPS guidance

In January, CN Rail gave a strong 2022 earnings guidance. Back then, the company expected to deliver about a 20% increase in its adjusted earnings per share for the year. However, after facing multiple external challenges and growing worries about an economic slowdown, it now expects its earnings growth in the ongoing year to be between the range of 15-20%.

While commenting on CN Rail's slashed 2022 guidance during the earnings conference call, its CEO Tracy Robinson said, "Harsh weather, mostly in Western Canada and supply chain disruptions impacted our ability to fully capitalize on the strong demand environment in Q1." She added that "the uncertainty from the war in Ukraine and the continuing pandemic disruptions in China and elsewhere, all suggest just a little bit of caution on the year."

What's next for CNR stock?

After today's sharp drop in CRN stock, it has erased all its year-to-date gains to turn negative. While CN Rail stock may continue to struggle in the near term after its guidance cut, the recent dip still makes its stock look attractive for long-term investors who want to add a fundamentally strong dividend stock to their portfolio, as its long-term growth outlook remains unchanged.

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