CN Railway (TSX:CNR) Stock: Buy the Dip?

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) is one of Canada's most popular stocks. It is widely held by billionaires, both through hedge funds and in their individual accounts, and is well known in the U.S. as well as Canada. Rail stocks became popular after Warren Buffett bought **BNSF** back in 2009. The deal alerted investors to the fact that the rail industry, despite its "old-school" image, still produced solid cash flows.

Today, the picture is not looking as good. CN Railway is down 5.7% for the year, which is not as bad as the TSX Index but still not a great showing. Compared to oil and gas stocks, CNR is really suffering. In this article, I'll look into some reasons why CN rail stock is experiencing weakness, and what they mean for investors.

Why CN Railway stock is falling

CN Railway is falling this year mainly due to weakness in the broader sector. Shipping rates are falling this year, which is dimming sentiment toward transportation stocks. CN's own performance has been reasonably good. In the most recent quarter, CNR boasted

- 6% revenue growth
- 38% diluted EPS growth
- 24% free cash flow growth
- 11% operating cash flow growth

That's pretty solid growth. Of course, the last 12 months includes two 2021 quarters, which means there's still some 2020 weakness in the base period. However, CNR's most recent quarter was a beat on revenue, with positive revenue growth. So, it's not like there's no growth happening.

Is the dip buyable?

Having looked at CNR's growth and some industry factors, it's time to ask if this dip is buyable.

If your universe of alternatives consists mainly of stocks, I'd say, yes, it is. I used to own CNR stock, I only sold it to finance other stock purchases. I still believe it's a good value. CNR is relatively expensive compared to some other traditional industry stocks, but it's also very stable and dependable.

Shipping is one of the most vital services on earth, and rail is the most cost-effective way to ship goods over land. CNR is better than your average rail company, because it has a massive three-coast network that most of its competitors just can't touch. So, when you invest in CNR, you're investing in a company that will likely grow and improve for as long as the economy does.

This year, the macro economy is a headwind, as the U.S. is recording negative real GDP growth. Canada still has positive growth, but CNR does a lot of business in the U.S., so it may be affected by the likely recession occurring there.

Worth noting: CNR pays a dividend, which goes higher the lower the stock prices goes. Right now, the yield isn't very high, but it could go higher if you buy on future weakness.

Foolish takeaway

Looking at all of the relevant factors, we can conclude that CNR is a reasonably good value. It's not the kind of stock that's going to make you rich overnight, but it's a very stable, dependable company that grows with the economy. If the U.S. enters a recession, then CN Railway might encounter some short-term weakness. Over the long run, though, it looks good.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton

2. kduncombe

Category

1. Investing

Date
2025/06/29
Date Created
2022/07/21
Author
andrewbutton