5 Things to Know About CNR Stock

Description

Canadian National Railway (TSX:CNR) is a leader in the rail industry and has a great track record of delivering strong returns for shareholders. Investors are wondering if CN stock is now undervalued after the market correction and good to buy for a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolio.

Operations

CN Rail moves $250 billion worth of cargo every year across a network of nearly 20,000 route miles. The rail lines run from the Pacific and Atlantic coasts of Canada to the Gulf Coast in the United States. CN is the only rail operator in North America that can offer customers access to all three ports through a single system.

CN transports a wide range of goods ranging from commodities like coal, oil, grain, fertilizer, and forestry products to cars and finished goods. If one segment has a rough quarter, the others often pick up the slack.

Earnings

CN generates revenue in both Canada and the United States. When the U.S. dollar strengthens against the Canadian dollar, the bottom line often gets a nice boost, as the funds are converted to the home currency.

CN reported record second-quarter (Q2) 2022 revenue of $4.34 billion, which is up 21% from the same period last year. Adjusted operating income jumped 29% to $1.78 billion. Adjusted diluted earnings per share hit a record of $1.93 — an increase of 30%. For the first six months of 2022, free cash flow came in at $1.57 billion compared to $1.28 billion in the fist half of 2021.

Outlook

CN reaffirmed its financial guidance for 2022, and investors should see solid results reported for the third quarter. For the full year, CN is targeting 15-20% adjusted earnings-per-share growth and return on invested capital of 15%. In addition, CN says it is on track to deliver $3.7 billion to $4.0 billion in free cash flow.

Dividends and share buybacks

CN raised the dividend by 19% for 2022. Investors should see another generous increase for 2023. The yield is about 1.9%, which might put some investors off, but it is important to look at the dividend growth as well as the yield at the time the stock is purchased. CN has a compound annual dividend-growth rate of about 15% since the company started to trade publicly in the mid-1990s.

CN also has a good track record of using excess cash to buy back stock. This helps boost earnings per share and tends to support the stock price. Under the current share-repurchase plan, CN intends to acquire up to 6.9% of the outstanding common stock over a 12-month timeframe. The company spent $2.47 billion on share buybacks in the first six months of 2022.

Risks

A deep global recession would have a negative impact on demand for CN's services. Ongoing supply chain bottlenecks also pose risks. Looking ahead, volatile weather conditions can disrupt services. Heavy snow in the winter and flooding in the spring and summer can block or damage tracks and hubs.

Should you buy CN stock now?

CN trades for $155 per share at the time of writing compared to $170 earlier this year. The dip from the high appears overdone, given the record earnings reported in Q2 and anticipated strong Q3 results. Demand remains robust for CN's services, and it has demonstrated its ability to raise prices to cover rising operating costs.

If you have some cash to put to work in a TFSA or RRSP focused on total returns, CN stock deserves to be on your radar.

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