



Buy Alert: CNR Stock is Unstoppable After Strong Results

Description

Canadian National Railway Co. ([TSX:CNR](#))([NYSE:CNI](#)) is at the heart of the Canadian economy. The railway transports billions of dollars of goods annually – it's an essential part of our supply chain. CN Rail stock has been outperforming for as long as I can remember. This company is on a never-ending drive to increase efficiencies and improve its performance. This strength has driven exceptional financial results. It's also driven solid outperformance by CNR stock.

CN Rail reported its third quarter results. This was yet another stellar quarter to add to the company's long list of strong results. Read on as I go through the reasons that CNR stock is a buy today.

A long history of consistency

The Canadian railways, such as CN, are the backbone of the Canadian economy. They transport more than \$250 billion of goods annually. These goods come from a diversified list of sectors. This includes the resource sector (grain crops), [crude oil](#), manufactured products, and consumer goods.

Over the last 10 years, CN Rail has grown its revenue from \$9 billion to \$14.5 billion in 2021. This represents a 61% growth rate – or a compound annual growth rate (CAGR) of 4.9%. While it may seem like this growth rate is due to a slow down, this could not be farther from the truth. In fact, just the opposite is true – the growth rate has accelerated and new records are being made.

In CN's latest quarter, revenue increased 26% to \$4.5 billion from the year-ago period – a quarterly record. This performance was driven by strong volumes and pricing. Furthermore, earnings per share rose 40% to \$2.13 – another record. You see, CN has been working on driving consistency and improving service levels. At the same time, CN Rail's relentless drive to improve efficiencies continues. And the results speak for themselves.

CN Rail stock doesn't reflect its strong history and outlook?

In the latest quarter, CN reported better than expected results once again – 6% better than expected.

This came as a welcomed surprise and sent CN stock 3% higher yesterday. But the best part is that results are coming in so strong that CN management is raising its own forecasts for 2022. The new expectation is that EPS will increase 25% this year, compared with prior expectations for a 15% to 20% growth rate.

In addition, free cash flow for the first nine months of 2022 increased 44% to \$2.9 billion. This was driven by higher earnings. So, as we can see, CN Rail is seeing strong momentum in 2022 and heading into Q4. Grain volumes have exploded higher, [automotive volumes are expected to be strong into 2023](#), and coal demand remains strong. This demand growth is setting CN up to continue to post strong results. You see, CN Rail's market position is pretty secure as competition is limited.

Motley Fool: The bottom line

It's pretty obvious that CN Rail stock has been unstoppable for quite some time. Yet the stock trades at a P/E multiple of 20 times next year's consensus earnings estimate, which is low considering its strategic advantages. Also, it trades at a price to book of five times, which I believe is justified given CNR's strong returns. For example, its ROE is 24% and management expects its return on investment to hit 15% in 2022, up from 12%.

The future of CN Rail remains bright, as the company should continue to benefit from its solid position in the railroad industry for years to come. Therefore, CNR stock is a stock to consider buying today.

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