4 Things to Know About CNR Stock in November 2022

Description

Railroad companies are perceived as stable, value-creating stocks. Bigwig **Canadian National Railway** (TSX:CNR) has been a stellar example of that for the last several years. Let's take a look at whether CNR stock is worth betting on for the long term or not.

Competitive advantage

CNR operates a 20,000-mile network and connects three key coasts, the Atlantic, the Pacific, and the Gulf of Mexico. Such an unmatched network provides scale and cost advantages that stand tall in duopolistic markets.

CNR was one of the early adopters of Precision Scheduled Railroading, which focuses on improving operational efficiency. It is a railroad strategy that helps achieve lower operating ratios and consolidate the rail network.

CNR has a diversified revenue profile, which makes its topline relatively stable in almost all kinds of markets. It derives 44% of its revenues from petroleum and chemicals, while grains, metals, and others contribute to the rest. Canada contributed more than two-thirds to its consolidated revenues, while the U.S. makes up for the rest.

Financial growth

Railroad companies are cyclical companies. Their earnings growth has a strong correlation with business or economic cycles. However, stocks like CNR recovered much earlier than broader markets amid the pandemic-led crash in 2020.

In the last decade, CNR reported revenue and earnings growth of 4% and 6% compounded annually, respectively. Railroad companies are mature companies and may not be prudent for growth investors. However, if you are looking for stability, given your relatively low-risk tolerance, railroad companies like CNR are apt bets.

Notably, CNR has consistently generated a return on equity of above 20% in the last 10 years. That indicates the company is quite investable and is efficiently converting its equity into earnings. Companies with return-on-equity ratios below 15% are generally considered unhealthy.

CNR has a strong balance sheet with manageable debt and a solid liquidity position. Its debt-to-equity ratio at the end of the third-quarter quarter came in at 0.7.

Shareholder returns

Railroad giant Canadian National Railway has returned 12% and 16% compounded annually in the last five and 10 years, beating broader markets. However, its biggest peer, **Canadian Pacific**, notably outperformed in the same period, returning 20% compounded annually in the same period.

Stocks like CP and CNR are not for everyone. If your holding period is short, like a year or two, these stocks may not play well. However, over the long term, these names have created decent wealth due to their consistent dividend payments.

Valuation

CNR stock is currently trading 22 times its earnings, which is lower than its peers. In comparison, CP is trading 33 times its earnings. CNR looks undervalued in relative terms compared to its top peer. Moreover, CNR looks discounted against its historical average as well.

CNR stock looks appealing, even though it is currently trading close to its all-time highs. Its earnings visibility and business strength could create notable shareholder value in the long term. Even though the global growth outlook does not look that rosy, CNR could remain resilient and could drive market-beating returns.

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