Update: CN Rail (TSX:CNR) Stock Does Little to Impress in Q2

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) has been on quite a run. Since March lows, the company has quietly put together a three-month uptrend. As of close Tuesday, CN Rail stock was sitting on gains of 9.79% year to date.

Earlier in the week, I'd questioned if these gains were justified. Canada's gross domestic product (GDP) is expected to drop by 7.8% in 2020, and we are currently in the midst of a recession.

As an economic bellwether, investors were anxiously awaiting CN Rail's quarterly results. How did the company perform? Let's take a look.

The earnings report

After the bell on Tuesday, CN Rail reported financial results for the second quarter ending June 30, 2020:

Metric	Reported	Expected
Earnings per share	$1.28	$1.26
Revenue	$3.21 million	$3.25 billion

Overall, it was a decent quarter. Earnings of $1.28 per share beat by $0.02, and revenue of $3.21 million missed estimates by $40 million. Year over year, this reflects drops of 59% and 19%, respectively. Not surprisingly, results were negatively impacted by the pandemic, which resulted in lower volumes.

Likewise, the company's adjusted operating ratio came in at 60.4%, which is slightly below the consensus of 60.9%. It was also 530 basis points lower than the first quarter (65.7$). Likewise, revenue per carload came in at -3.2% when analysts were expecting gains of 3.2%.

On the bright side, CN Rail delivered more than $1 billion in free cash flow in the period. That's quite a notable achievement considering the once-in-a-lifetime event. Likewise, increased grain shipments partially offset the negative volumes in most every other segment.

Overall, it was a quarter that largely fell in line with expectations. It was nothing earth shattering, and nothing that points to a quick economic rebound.

The year ahead

Despite what was a challenging quarter, management remains optimistic on the future. In fact, it is moving forward with expansion plans.

> "I'm pleased to reaffirm our commitment in encouraging the economic recovery through our C$2.9B capital investment plan for 2020 as well as our new investment announcement of the purchase of approximately 1,500 new, efficient, high-capacity, covered hopper cars to expand our grain export business for delivery starting in January of 2021" — Jean-Jacques Ruest, president and CEO

The commitment to increasing its grain business is not surprising. In early July, CN Rail moved 2.7 million metric tonnes (MT) of Canadian grain in June, its fourth consecutive month of record grain movement. At that time, vice-president of Bulk, Allen Foster, expressed confidence "that the high volume of shipments experienced in June will continue until the end of the crop year."

It is also worth noting the terminology in the above quote from Mr. Ruest. Specifically, the company is "encouraging the economic recovery through" its investment plans. Although the investment itself is a positive sign, I take the cautious wording to mean that the company is still uncertain about the overall economic outlook. Not surprisingly, CN Rail did not re-instate 2020 guidance.

Is CN Rail stock a buy today?

Second-quarter results did little to sway my neutral outlook. CN Rail will continue to face headwinds relating to the economic recovery, of which there still exists plenty of unknowns. There are plenty of factors beyond the company's control that can either lead to an economic recovery or stop it in its tracks — pun intended.

That being said, the company is the largest railway in Canada and forms a duopoly with rival **Canadian Pacific Railway**. Given its considerable moat, this is one stock that investors will want to own in their portfolios. At some point, the economy will rebound, and given this, CN Rail is a buy-the-dip candidate.

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