Canadian National Railway (CNI)

Updated January 31st, 2024 by Nathan Parsh

Key Metrics

Current Price:	$125	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$80 B
Fair Value Price:	$107	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/06/24
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	03/28/24
Dividend Yield:	2.0%	**5 Year Price Target**	$151	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Canadian National Railway is the largest railway operator in Canada. The company has a network of approximately 20,000 route miles and connects three coasts: the Atlantic, the Pacific and the Gulf of Mexico. It handles over $200 billion worth of goods annually and carries over 300 million tons of cargo. The company is cross-listed on the New York Stock Exchange, where it trades under the ticker CNI. Although the company reports financial results in Canadian Dollars, all figures in this report are in USD, as the railroad's NYSE-listed shares have been used for the purpose of valuation analysis.

On January 24th, 2024, Canadian National Railway increased its dividend 7% for the March 28th, 2024 payment date.

On January 23rd, 2024, Canadian National Railway announced fourth quarter and full year earnings results for the period ending December 31st, 2023. For the quarter, revenue decreased 2.3% to $3.3 billion, but this was $77 million more than expected. Adjusted earnings-per-share of $1.50 match the prior year's result, and was $0.03 ahead of estimates. For 2023, revenue fell 3.9% to $12.5 billion while adjusted earnings-per-share of $5.41 compared to $5.67 in the prior year.

For the quarter, Canadian National Railway's operating ratio was higher by 140 basis points to 59.3%. Revenue ton miles (RTM) increased 2%. Revenue results were mostly positive among the individual product categories. Automotive (+20%) was the best performer, but petroleum and chemicals, coal, and grain and fertilizers were all up at least mid-single-digits. Intermodal (-20%) remained the worst performer while Forest Products (-6%) declined slightly. Car velocity and terminal dwell both improved 4%. Train length and efficiency were both up 1%. Finally, the company repurchased 7.3 million shares during the quarter.

Canadian National Railway reaffirmed its prior forecast of adjusted earnings-per-share growth of 10% to 15% annually for 2024 to 2026. We expect that the company will earn $5.97 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.23	$3.20	$3.44	$3.82	$4.31	$4.41	$4.00	$4.75	$5.67	$5.41	*$5.97*	*$8.37*
DPS	$0.86	$0.90	$1.12	$1.25	$1.39	$1.62	$1.64	$1.96	$2.25	$2.32	*$2.48*	*$3.48*
Shares[1]	809	787	762	743	735	717	711	701	677	643	*643*	*625*

Canadian National Railway has grown its earnings at an approximately 6% average annual rate over both the last decade and last five years. The company has guided towards ambitious growth targets over the next three years, but we are comfortable forecasting 7% annual earnings growth. Applying a 7% growth rate to our 2024 earnings-per-share estimate of $5.97 allows us to compute a 2029 per-share-earnings estimate of $8.37. The company has been an aggressive repurchaser of its own shares over the last decade, reducing the share count by more than 2.5% annually over this period.

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[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.6	19.2	17.8	20.1	19.1	20.0	23.6	25.9	21.0	23.2	*20.9*	*18.0*
Avg. Yld.	1.4%	1.5%	1.8%	1.6%	1.7%	1.8%	1.8%	1.6%	1.9%	1.8%	*2.0%*	*2.3%*

Shares of Canadian National Railway are up $19, or 17.9%, since our October 26th, 2023 report. The stock has traded at an average price-to-earnings ratio of 20.4 over the last decade and is currently trading close to this level today. We are reaffirming our target price-to-earnings ratio of 18. If Canadian National Railway's price-to-earnings ratio contracts to this target then annual returns would be reduced by 3.0% over this period. We see the stock as overvalued today at 116% of fair value.

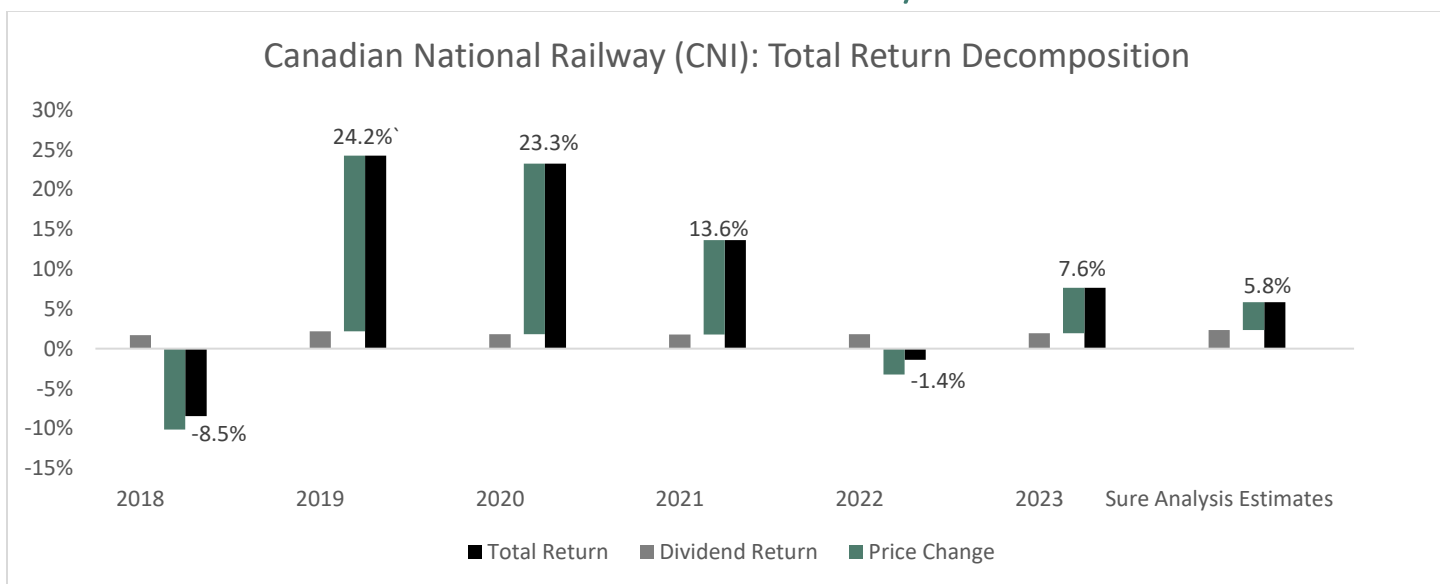## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	28%	33%	33%	32%	37%	41%	41%	40%	43%	*42%*	*42%*

Canadian National Railway benefits from operating in the railway industry, one of the sectors with the highest barriers to entry. The capital and expertise required to build new railways is tremendous. Moreover, the railway industry is saturated and is structured as an oligopoly, which results in virtually no new entrants and minimal competition. Canadian National Railway is also quite shareholder-friendly, as the company has increased its dividend payment (in Canadian dollars) for 29 consecutive years.

Final Thoughts & Recommendation

Following fourth quarter results, Canadian National Railway is now expected to offer a total annual return of 5.8% through 2029, down from our previous estimate of 6.7%. This projection stems from a 7% earnings growth rate and starting yield of 2.0%, offset by a low single-digit headwind from multiple contraction. Canadian National Railway saw growth in most of its product categories during the quarter and the company reaffirmed its EPS guidance for the next three years. We have raised our 2029 price target $19 to $151 due to EPS estimates for the year, but maintain our hold rating on Canadian National Railway due to projected returns.

Total Return Breakdown by Year

Canadian National Railway (CNI): Total Return Decomposition

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10991	9881	9089	10063	11051	11239	10314	11547	13149	12463
Gross Profit	4522	4435	4074	4379	4601	4585	4307	4841	5685	5296
Gross Margin	41.1%	44.9%	44.8%	43.5%	41.6%	40.8%	41.8%	41.9%	43.2%	42.5%
D&A Exp.	951	907	925	988	1026	1177	1186	1275	1329	1346
Operating Profit	4522	4435	4074	4379	4601	4585	4307	4437	5257	4886
Operating Margin	41.1%	44.9%	44.8%	43.5%	41.6%	40.8%	41.8%	38.4%	40.0%	39.2%
Net Profit	2869	2772	2749	4231	3340	3177	2646	3908	3934	4166
Net Margin	26.1%	28.1%	30.2%	42.1%	30.2%	28.3%	25.7%	33.8%	29.9%	33.4%
Free Cash Flow	1888	1907	1893	2194	1842	1551	2464	3254	3011	2798
Income Tax	1081	1047	972	(305)	1045	914	728	1151	1264	639

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	27296	26232	27485	29924	30259	33518	35136	38068	37328	39700
Cash & Equivalents	45	110	131	56	195	49	446	657	242	358
Acc. Receivable	799	633	649	783	858	929	827	842	1010	980
Inventories	289	256	269	337	409	468	457	462	510	527
Goodwill & Int.	53	51	50	49	54	175	169	164	153	152
Total Liabilities	15693	15459	16478	16678	17307	19707	19725	20230	21572	24536
Accounts Payable	400	282	359	587	721	663	612	708	703	730
Long-Term Debt	7212	7514	8112	8611	9228	10561	10121	9792	11368	13925
Total Equity	11603	10773	11008	13245	12952	13811	15411	17838	15756	15164
LTD/E Ratio	0.62	0.70	0.74	0.65	0.71	0.76	0.66	0.55	0.72	0.92

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.3%	10.4%	10.2%	14.7%	11.1%	10.0%	7.7%	10.7%	10.4%	10.8%
Return on Equity	24.1%	24.8%	25.2%	34.9%	25.5%	23.7%	18.1%	23.5%	23.4%	26.9%
ROIC	15.0%	14.9%	14.7%	20.7%	15.2%	13.6%	10.6%	14.7%	14.4%	14.8%
Shares Out.	809	787	762	743	735	717	711	701	677	643
Revenue/Share	13.35	12.27	11.67	13.29	14.98	15.55	14.47	16.26	19.10	18.91
FCF/Share	2.29	2.37	2.43	2.90	2.50	2.15	3.46	4.58	4.37	4.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer