

Canadian National Railroad

Research Report | February 04 2021 | NYSE Ticker: **CNI**



Closing Price: \$104.39 (02/04/2021)

Recommendation: SELL (Trim 3.2% to 1.5%)

Sector: Industrial

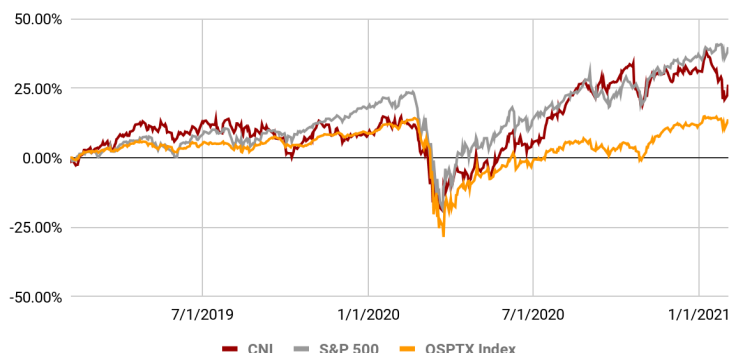
12-month Target: \$101.80

Cost Basis: \$77.18

Industry: Road & Rail

CNI - S&P500

2-Yr Return Against Benchmarks



Highlights

- Over past 2 years CNI's returns have closely followed the S&P500's, indicating that CNI has struggled to outperform benchmark returns
- CNI increased dividends for the 25th consecutive year as 2021 quarterly cash dividends grew 7%. Trimming our position still gives exposure to CNI's solid dividend payment while seeking higher equity growth elsewhere
- Although CNI enjoys a wide economic moat based on its economy of scale and substantial cost advantage of freight transport, its margins are limited by high capital expenditures on maintenance and railroad purchases (consuming 20% of CNI's top line)
- CNI shows strong cost-containment while volume momentum recovers after the sharp downturns in raw material freight in 2020 (which is about 60% of CNI's revenue) but will still see substantial decline in earnings as freight demands are adversely affected

Investment Risk

Low	Medium	High
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- CNI offers solid cash flows, an attractive operating ratio and forecasts historic demand for grain transport which will help contribute to the growing revenue per carload (estimated at 2-3%)
- CNI's 3-coast railroad network and rights of way preserve its competitive advantage and deter market entrants with massive infrastructure costs while CNI further consolidates the industry via strategic rail line acquisitions

CNI Summary Statistics

Current Price	\$102.42
52 Week Range	\$65.13-\$116.16
Market Cap	\$73.8 B
P/E	26.62
P/S	6.85
Beta	0.6
Forward Dividend Yield	1.87%

CNI Historical EPS

	Annual
2022	6.82
2021	6.06
2020	5.28
2019	6.05
2018	5.56

CNI Financial Summary

(USD millions)	2018	2019	2020	2021	2022
Revenue	10,501	11,485	10,852	11,697	13,181
Gross Profit	7,786	8,479	8,257	8,889	10,017
EBITDA	5,141	5,383	4,817	5,497	6,195
Net Income	3,174	3,246	2,687	3,275	3,690

* Cells denoted in yellow are estimated values