

## RAILROADS

JANUARY 7, 2020 | 6:42 AM EST  
INDUSTRY COMMENT

### CDN Rails: Traffic on the Mend as 'Big 3' Headwinds Fade. 2020 Looks Better.

#### Recommendation

Canadian rail traffic appears firmly on the mend after a difficult 4Q19, in our view, with the 'Big 3' headwinds (Grain, Crude, Potash) we [first identified back in September](#) now fading. While residual pockets of weakness linger, we believe the rapid retreat of these largest headwinds, coupled with an improved macro/trade outlook, portend a relatively upbeat 2020 traffic picture.

- 'Big 3' Hit Hard in 4Q19, Now Fading**—As previously indicated, stiff traffic headwinds emerged last fall across three key categories, namely: Grain (late harvest), Crude-by-Rail (Alberta production caps, low spreads), and Potash (international contract dispute). Forestry and Frac sand were also highlighted as segments facing structural headwinds. Three months later, after significant pressure across all three categories, we now see this same trio of headwinds rapidly fading. Frac sand has also staged a surprising move to the upside. See herein for details.
- CN: 4Q19 Headwinds & Strike Weigh on Volumes/Earnings**—Exacerbated by an 8-day strike, CN 4Q19 QTD traffic/RTMs ended down -13.3% y/y, with the most significant weight experienced in PetChem. (-21.4%, tough CBR comps), Coal (-20.1%, weak exports), Metals & Min. (-11.7%, sand-driven, weaker E&P activity), and Forest Products (-12.8%, BC curtailments). While the strike clearly magnified these 4Q declines, we note that material pressure was evident across these same categories prior to the strike.
- CP: Fading Headwinds Clear, Traffic Tilts Positive Late 4Q19**—CP 4Q19 traffic more clearly demonstrates the fading 'Big 3' headwinds described. After starting the period deep in the red (RTMs: -12.8% first 5 weeks), QTD volumes finished week 13 down only -3.7%, with the past 4 weeks flirting intermittently with positive territory—largely thanks to a sharp upturn/recovery in Potash, Grain, and Crude. See herein for details.
- Constructive View Still Favours CP, Slowly Warming on CN**—Based upon the outlook described, we are increasing our target price on CP Rail to \$365.00 (vs. \$340.00 prior) and reiterating our OP2-rating, a view underpinned by the carrier's obvious traffic momentum, healthy 2020 growth prospects, and superb operating track record. Conversely, while our view on CN is admittedly warming in tandem with the fading headwinds described, we are trimming our target price to \$130.00 (vs. \$135.00 prior) and reiterating our MP3-rating based upon the railroad's more significant lingering headwinds. We will continue to monitor accordingly.

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Company	Ticker	Current Price	Rating	Target Price		Div. Yield	Suitability
				Old	New		
Canadian National Railway	CNR-TSX	C\$117.04	MP3	C\$135.00	C\$130.00	1.8%	M/GRW
Canadian Pacific Railway Limited	CP-TSX	C\$333.13	MO2	C\$340.00	C\$365.00	1.0%	M/GRW

Note: SB1 - Strong Buy, MO2 - Outperform, MP3 - Market Perform, MU4 - Underperform, UR - Under Review, S - Suspended; M/INC - Medium Risk/Income, M/GRW - Medium Risk/Growth, H/GRW - High Risk/Growth, H/INC - High Risk/Income, H/SPEC - High Risk/Speculation.

Please read domestic and foreign disclosure/risk information beginning on page 10 and Analyst Certification on page 10.

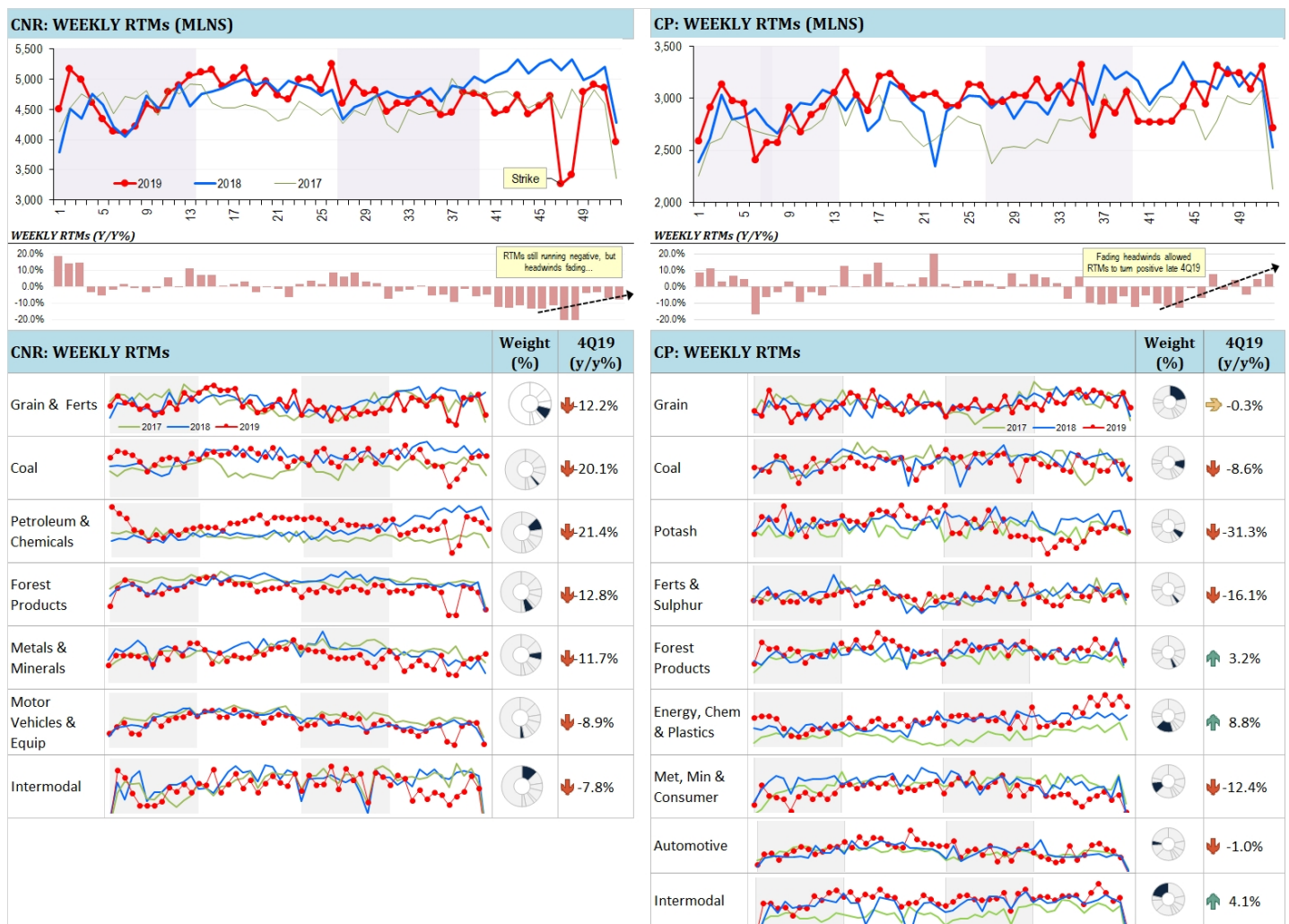
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### 'BIG 3' HEADWINDS QUICKLY FADING. 2020 LOOKS BETTER.

Canadian rail traffic appears firmly on the mend after a difficult 4Q19, in our view, with the 'Big 3' headwinds (Grain, Crude, Potash) [first identified back in September](#) now fading. While residual pockets of weakness linger, we believe the rapid retreat of these largest headwinds, coupled with an improved macro/trade outlook, portend a relatively upbeat 2020 traffic picture.

- **'Big 3' Hit Hard in 4Q19, Now Fading**—As indicated, stiff traffic headwinds emerged late last fall across three key categories, namely: Grain (late harvest), Potash (international contract dispute), and Crude-by-Rail (Alberta production caps, low spreads). Forestry and Frac sand were also highlighted as facing structural headwinds. Three months later, after significant pressure across all three categories, we now see this same trio of headwinds rapidly fading. Frac sand has also staged a move to the upside. We discuss all three segments herein.
- **CN: 4Q19 Headwinds & Strike Weigh on Volumes/Earnings**—Exacerbated by an 8-day strike, CN 4Q19 QTD traffic/RTMs ended down -13.3% y/y, with the most significant weight experienced in PetChem. (-21.4%, tough CBR comps), Coal (-20.1%, weak exports), Metals & Min. (-11.7%, sand-driven, weaker E&P activity), and Forest Products (-12.8%, BC curtailments). While the strike clearly magnified these 4Q declines, we note that pressure was evident across these same categories prior to the strike. A late-quarter derailment also impacted metrics. See Exhibit 1.
- **CP: Fading Headwinds Clear, Traffic Tilts Positive Late 4Q19**—CP 4Q19 traffic more clearly demonstrates the fading 'Big 3' headwinds described. After starting the period deep in the red (RTMs: -12.8% first 5 weeks), QTD volumes finished week 13 down only -3.7%, with the past 4 weeks flirting intermittently with positive territory—largely thanks to a sharp upturn/recovery in Potash, Grain, and Crude.

**Exhibit 1: CN & CP 4Q19 RTMs by Segment**



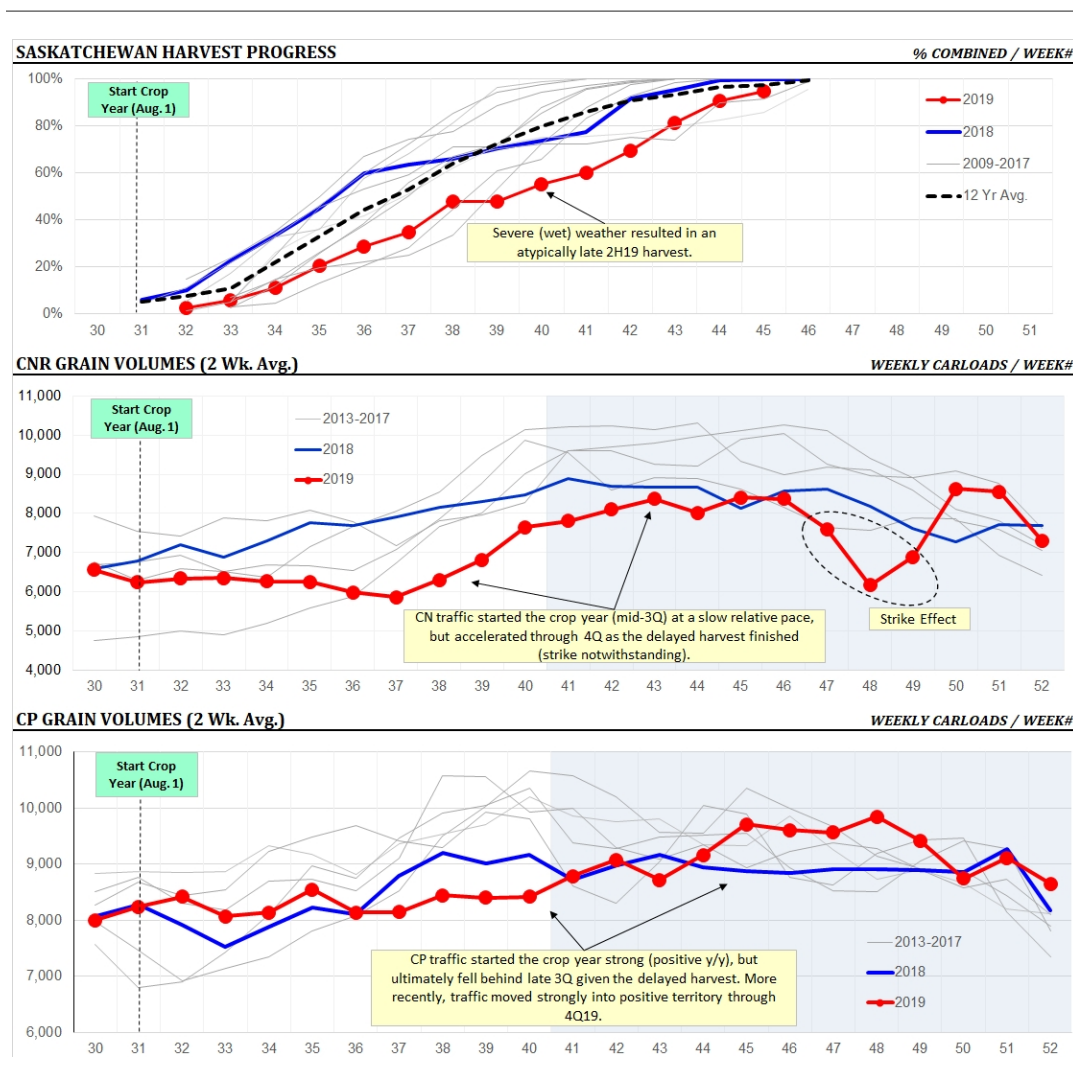
Source: Canadian National Railway, Canadian Pacific Railway Limited, Raymond James Ltd.

## 1) Grain: The 'Year-to-Forget' for Most Farmers, Brutal/Late Harvest Defers Shipments

Canada's 2019 harvest will likely be remembered as one of the most challenging in a decade (a little reminiscent of 2016), with up to four million acres left unharvested due to horrifically wet/snowy conditions, most notably in east-central Saskatchewan (2.5 mln acres) and northern Alberta (1.6 mln). Given this backdrop, the Canadian harvest was *very delayed* vs. its traditional pattern through 2H19, leaving both CN and CP anxiously awaiting volumes (with excess capacity allocated) in late 3Q19 and early 4Q19.

- Headwind Now Fading. Harvest Data & Easy Comps Point to Solid 2020**—Fortunately, with the harvest finally wrapping up mid-4Q (capped by the onset of winter), grain volumes have started to flow more fluidly, allowing carloads at both carriers to accelerate back into positive territory—although CN's 8-day strike in early December clearly dented this progress. With production and carry-out stocks both estimated by Ag Canada at roughly flat y/y, we expect Canadian-originated volumes to move solidly through 1H20 as farmers look to catch up from their slow start to the crop year, although exports could trail off in 2Q20 given increased competition from alternative export regions. Still, if we assume a 'normal' (average) crop scenario next fall, we expect both CN and CP will benefit from relatively easy 2H20 comps that will help facilitate modest 2020 growth. Finally, as a secondary potential tailwind, we also note that US-originated soybean exports (via the Pacific Northwest) have finally started to rise after a weak 2019 summer, largely owing to the recent US-China trade deal (Phase 1).

**Exhibit 2: CN & CP Grain Carloads vs. Saskatchewan Harvest Timeline**



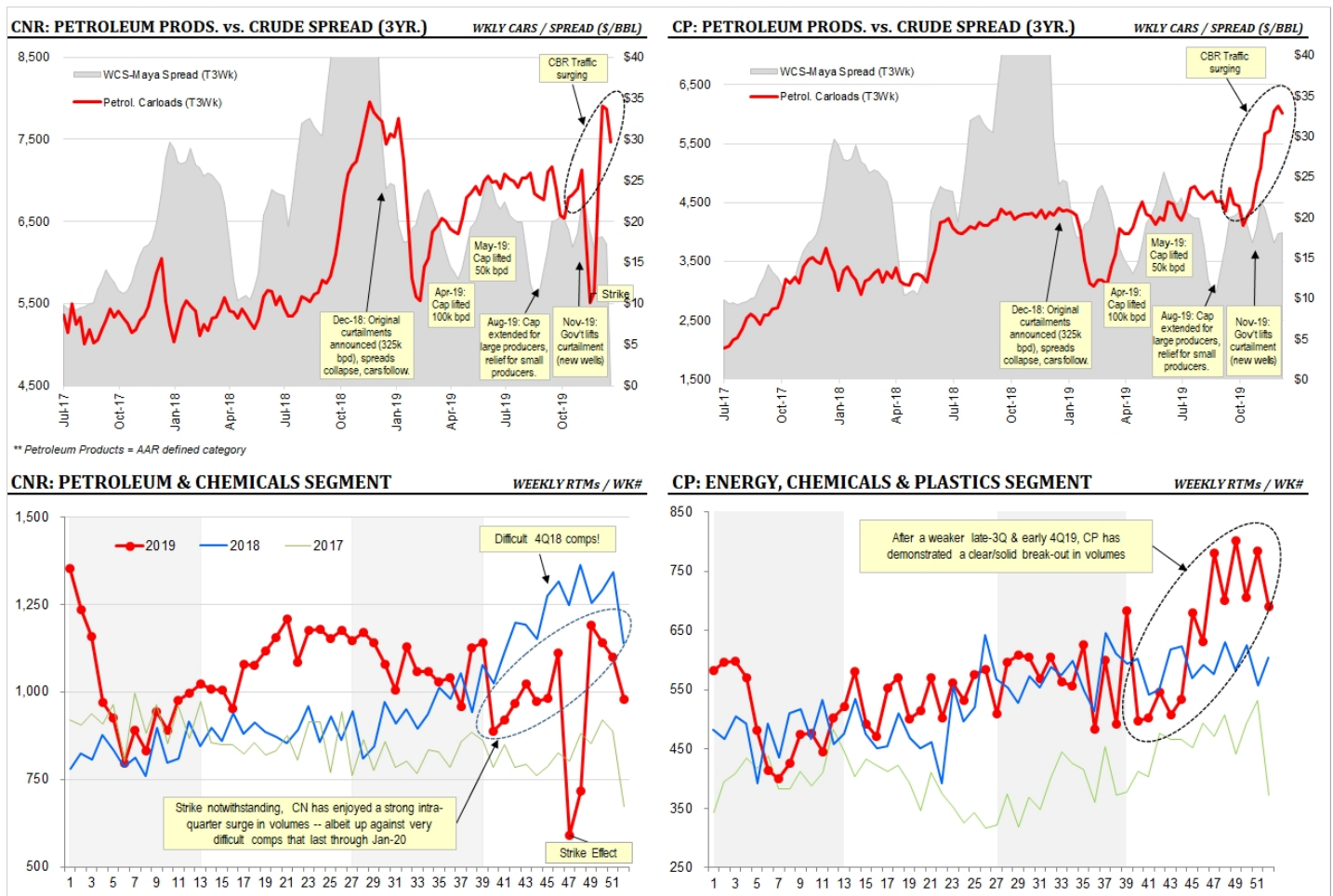
Source: Sask. Ministry of Ag., Canadian National Railway, Canadian Pacific Railway, Raymond James Ltd.

## 2) Crude-by-Rail: Volumes Ramping Quickly, DRU Investment Underpins Long-Term Visibility

After a volatile summer influenced (hampered) by sustained government intervention, CN and CP crude-by-rail (CBR) volumes have demonstrably surged over the past two months, seemingly benefiting from the Alberta government's recent decision to further lift oil production caps (on new conventional wells), a move that's helped widen benchmark spreads and support CBR economics. Coupled with ongoing pipeline delays, pending government contract transfers, and newly announced plans for an Alberta-based diluent recovery unit (DRU), we expect the CBR theme will continue to provide a healthy traffic tailwind through 2020 (& beyond).

- Mid-4Q19 Volume Surge Sets Stage for Strong 2020**—After a weak late 3Q/early 4Q, CN and CP petroleum product carloads notably surged ~20% and ~40%, respectively, through the back half of 4Q19, seemingly taking their cue from the government actions noted above. Notwithstanding this upturn, CN's 4Q19 PetChem volume/RTMs still declined -21.4% y/y, largely owing to stiff y/y comps (vs. 4Q18) and the firm's 8-day strike. CP's Energy, Chem & Petroleum volume/RTMs were strong by comparison, rising +8.8% y/y in 4Q19, as the railroad faced easier comps and enjoyed a solid break-out in traffic—setting the stage for a strong 1H20, in our view.
- DRU Investment Bolsters Long-Term CBR Visibility**—After several years of speculation, Gibson's Energy and US Development Group announced a [JV agreement](#) on Dec-3-19 to construct a DRU at USD's CBR loading facility at Hardisty, Alberta, a critical development that underpins long-term CBR visibility, in our view, by lowering unit transportation costs, improving safety, and lowering environmental risk. Supporting this view, ConocoPhillips Canada notably entered into a long-term contract with Canadian Pacific and Kansas City Southern (KSU) to move 50k bpd of bitumen blend to the US Gulf when the facility goes live in 2Q21. Moreover, USD and Gibson are reportedly in discussions with other potential customers to secure additional long-term agreements.

**Exhibit 3: CN & CP Petroleum Carloads vs. Benchmark Crude Spreads (WCS-Maya) & Related RTMs by Segment**



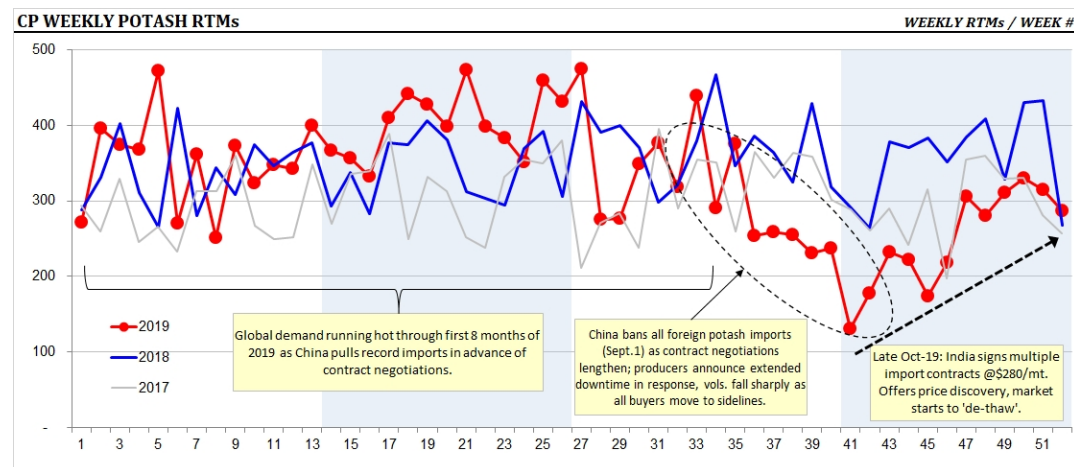
Source: Raymond James Ltd., Canadian National Railway, Canadian Pacific Railway Limited



### 3) Potash: Indian Contracts Helping De-Thaw Export Market, but Still Waiting on China.

While extended contract negotiations between Canpotex and China drove CP's 4Q19 potash volumes sharply lower (RTMs: -31.3% y/y), we believe the worst of this pain is now behind us following several Indian import contracts that offer sufficient price discovery to help de-thaw export markets. Underscoring this view, we note that CP potash traffic has already staged a solid recovery over the past 8-10 weeks—to the point where we started to flirt with positive data late in the period. Looking forward, we still expect some residual headwinds to linger through 1H20 as China isn't expected to settle until mid-to-late 1Q20. That being said, with China given our view that China is likely to push out its contract signing until mid-to-late 1Q20; however, we also expect these same headwinds will increasingly fade, with the back half of 2020 now presenting a very low hurdle to growth.

**Exhibit 4: CP's Weekly Potash RTMs (2017 - 2019)**



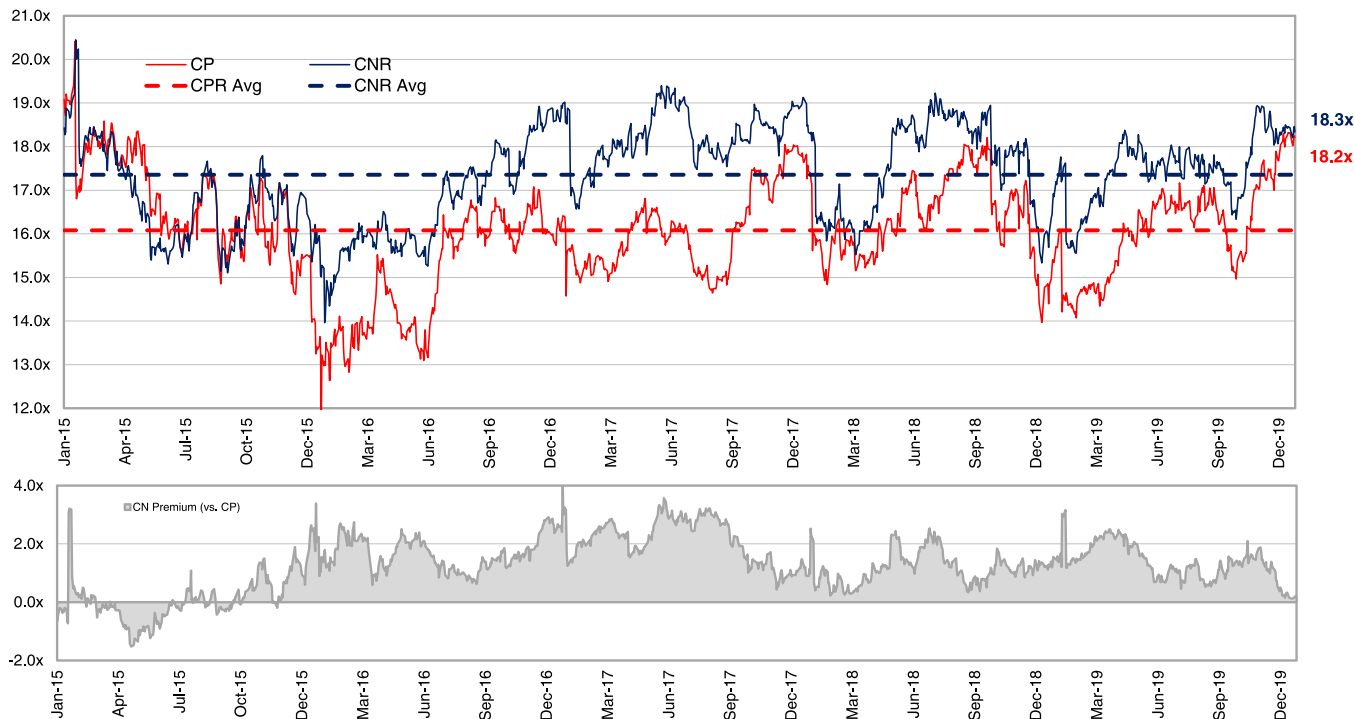
Source: Raymond James Ltd., Canadian Pacific Railway Limited

### Net Take: Outlook Still Favors CP, but Warming on CN

CP shares have demonstrably outperformed CN over the past three months, largely associated with the traffic backdrop described, in our view (see Exhibit 6). Looking forward, we expect this pattern to continue given CP's more obvious traffic momentum. That said, with CP now trading at the upper end of its historical trading range, we're mindful that further upside will increasingly come via improved earnings expectations (vs. multiple expansion)—an outcome we still view as reasonable given the constructive outlook described.

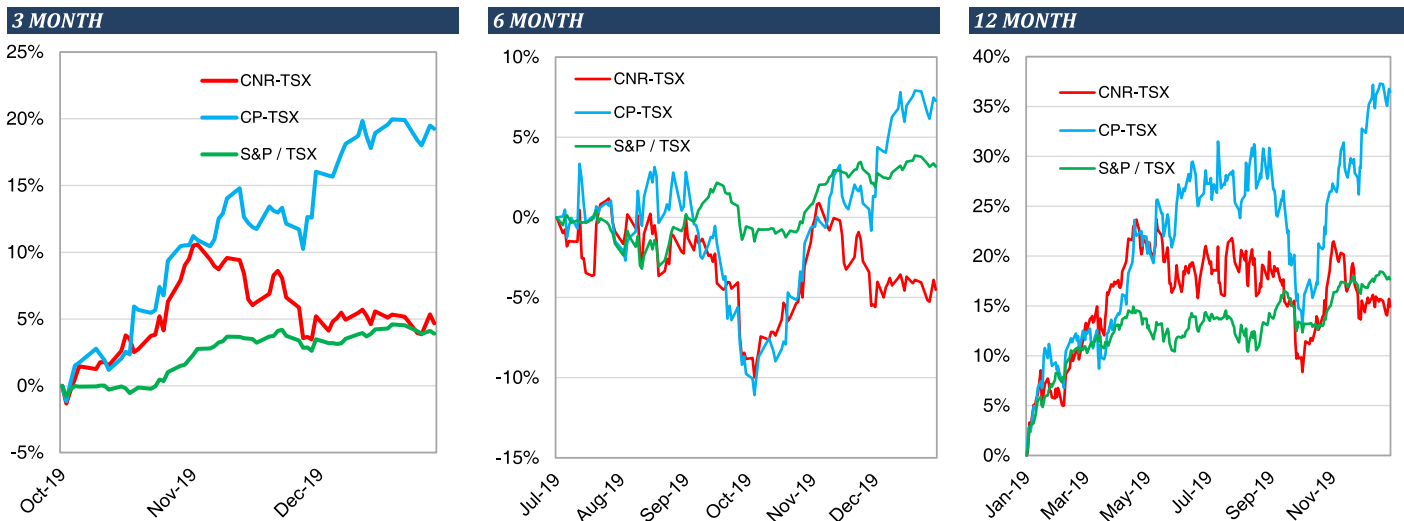
- CP: Outlook Supportive. Increasing Target to \$365. Reiterate OP2**—Based upon the outlook described, we are increasing our target price on CP to \$365.00 (vs \$340.00 prior) and reiterating our OP2-rating, a view underpinned by the carrier's clear traffic momentum, healthy growth prospects, and best-in-class management team/track record. We derive our target price based upon an 18.0x P/E multiple applied to our new 2021 estimates, in-line with CP's 3-year historical trading range (13.6x -20.5x).
- CN: Warming Outlook, but Tactically Still Cautious**—While our view on CN is admittedly warming in tandem with the fading headwinds described, we are trimming our target price to \$130.00 (vs. \$135.00 prior) and reiterating our MP3-rating based upon the railroad's more significant lingering headwinds. We will continue to monitor accordingly. Our revised target price is based upon an 18.0x P/E multiple applied to our new 2021 estimates, a multiple near this mid-point of CN's 3-year historical trading range (15.3x -20.4x).

**Exhibit 5: CN & CP Historical Forward P/E Multiple (5 Year, FY+2)**



Source: Raymond James Ltd., Capital IQ

**Exhibit 6: CN & CP Share Price Performance vs. S&P TSX Composite, S&P 500 (YTD, 1 Year, 3 Year)**



Source: Raymond James Ltd., Capital IQ

## Exhibit 7: North American Class 1 Railroad Comparative Trading Multiples

	Ticker	Fx	Current Price (\$)	Div Yield (%)	Market Cap (\$mlns)	Shares O/S (mrq, mlns)	P/E			
							2018A	2019E	2020E	2021E
Canadian National Railway	TSX:CNR	C\$	\$118.40	1.8%	\$84,700	715	21.6	20.2	18.3	16.7
Canadian Pacific Railway	TSX:CP	C\$	\$334.50	1.0%	\$45,880	137	23.6	20.5	18.2	16.6
Union Pacific	NYSE:UNP	US\$	\$180.98	2.1%	\$125,636	694	23.0	21.3	19.0	17.0
CSX Corporation	NASDAQGS:CSX	US\$	\$72.89	1.3%	\$56,682	778	19.1	17.5	16.7	15.3
Norfolk Southern Railway	NYSE:NSC	US\$	\$196.44	1.9%	\$51,221	261	21.3	19.4	17.5	15.3
Kansas City Southern	NYSE:KSU	US\$	\$155.26	1.0%	\$15,389	99	26.1	22.3	19.4	17.1
Average							22.4	20.2	18.2	16.4
Canadian Class 1 Average							22.6	20.4	18.3	16.7
US Class 1 Average							22.4	20.1	18.1	16.2

\* All valuation metrics based on consensus estimates

Source: Raymond James Ltd., Capital IQ.

## Exhibit 8: CP Financial Estimates Summary

CANADIAN PACIFIC RAILWAY	2017	2018	1Q19	2Q19	3Q19	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E
<b>Key Metrics (C\$ mlns):</b>													
Consolidated Revenue	6,554	7,316	1,767	1,977	1,979	1,989	7,712	1,899	2,080	2,115	2,130	8,224	8,666
Operating Expenses	3,761	4,485	1,224	1,155	1,110	1,167	4,656	1,222	1,206	1,183	1,236	4,847	5,056
Operating Income (EBIT)	2,793	2,831	543	822	869	823	3,057	677	874	933	894	3,377	3,610
Net Income	1,666	2,080	392	602	635	632	2,261	508	657	700	672	2,537	2,705
EPS (f.d., cont. ops.):	\$11.39	\$14.53	\$2.79	\$4.30	\$4.58	\$4.58	\$16.24	\$3.69	\$4.79	\$5.13	\$4.94	\$18.55	\$20.24
<b>Operating Ratio (% unadj.)</b>	<b>57.4</b>	<b>61.3</b>	<b>69.3</b>	<b>58.4</b>	<b>56.1</b>	<b>58.6</b>	<b>60.4</b>	<b>64.4</b>	<b>58.0</b>	<b>55.9</b>	<b>58.0</b>	<b>58.9</b>	<b>58.3</b>
<b>Carloads (thousands)</b>													
Grain	441	429	93	113	107	119	431	97	114	109	120	440	444
Coal	306	304	70	78	81	74	304	70	77	83	75	304	307
Potash	136	158	38	44	36	31	150	33	42	39	36	151	159
Fertilizers and sulphur	58	58	14	14	15	14	57	13	16	17	14	59	63
Forest products	66	69	17	19	19	17	72	17	19	19	18	74	77
Energy, Chemicals, Plastics	270	335	79	87	91	101	358	96	100	97	100	393	396
Metals, Minerals, and Consumer Products	256	252	54	64	63	55	235	56	65	65	56	242	252
Automotive	105	108	25	32	29	30	115	27	33	31	31	122	130
Intermodal	997	1,026	246	266	272	272	1,056	257	278	282	284	1,102	1,122
Total	2,634	2,740	637	718	713	714	2,778	668	745	743	736	2,888	2,948
Growth (YoY%)	4.3%	4.0%	-2.1%	5.6%	1.4%	0.5%	1.4%	4.9%	3.7%	4.3%	3.1%	4.0%	2.1%
<b>RTMs (mlns)</b>													
Grain	37,377	36,856	8,352	9,452	8,953	10,138	36,895	8,946	9,646	9,342	10,315	38,249	39,018
Coal	22,660	22,443	5,232	5,492	5,761	5,271	21,756	4,970	5,491	5,953	5,300	21,714	22,041
Potash	15,751	18,371	4,573	5,242	4,188	3,235	17,238	3,823	4,880	4,662	3,904	17,270	18,589
Fertilizers and sulphur	3,849	4,051	902	940	1,030	963	3,835	814	1,064	1,187	943	4,008	4,249
Forest products	4,484	4,763	1,179	1,289	1,278	1,211	4,957	1,203	1,341	1,369	1,323	5,236	5,445
Energy, Chemicals, Plastics	21,327	27,830	6,359	6,971	7,571	8,476	29,377	8,096	8,215	8,209	8,350	32,870	33,701
Metals, Minerals, and Consumer Products	11,468	11,858	2,448	2,867	2,910	2,495	10,720	2,622	2,983	3,087	2,647	11,339	11,793
Automotive	1,321	1,347	335	439	351	305	1,430	348	456	376	327	1,506	1,597
Intermodal	24,303	26,688	6,622	7,128	7,130	7,266	28,146	7,003	7,538	7,489	7,684	29,715	30,492
Total	142,540	154,207	36,002	39,820	39,172	39,360	154,354	37,825	41,614	41,675	40,793	161,907	166,924
Growth (YoY%)	4.8%	8.2%	-1.0%	6.0%	-1.2%	-3.1%	0.1%	5.1%	4.5%	6.4%	3.6%	4.9%	3.1%
RTM-Carload Spread (%)	0.5%	4.2%	1.1%	0.4%	-2.7%	-3.6%	-1.3%	0.2%	0.8%	2.1%	0.6%	0.9%	1.0%
<b>Yield (cents/RTM)</b>													
Grain	4.10	4.25	4.55	4.46	4.57	4.59	4.54	4.73	4.61	4.78	4.85	4.74	4.97
Coal	2.78	3.00	3.02	3.15	3.18	3.37	3.18	3.16	3.27	3.34	3.57	3.33	3.50
Potash	2.61	2.65	2.49	2.59	2.79	3.06	2.70	2.66	2.58	2.69	2.99	2.69	2.63
Fertilizers and sulphur	6.26	6.00	6.32	6.70	6.41	6.59	6.50	6.65	7.02	6.81	7.05	6.91	7.39
Forest products	5.91	5.96	6.19	6.05	6.10	6.34	6.17	6.30	6.13	6.27	6.46	6.29	6.51
Energy, Chemicals, Plastics	4.22	4.45	4.95	4.96	5.05	4.50	4.87	4.67	4.64	4.71	4.69	4.69	4.53
Metals, Minerals, and Consumer Products	6.44	6.72	7.07	7.15	6.91	7.14	7.06	6.96	7.01	6.93	7.22	7.01	7.22
Automotive	22.18	23.90	22.69	23.69	24.79	26.18	24.26	22.53	23.45	24.92	26.52	24.39	24.94
Intermodal	5.62	5.76	5.74	5.67	5.74	5.80	5.74	5.80	5.70	5.83	5.93	5.82	6.00
Total	4.47	4.64	4.79	4.85	4.93	4.94	4.88	4.91	4.89	4.96	5.11	4.97	5.08
Growth (YoY%)	0.4%	3.7%	7.3%	6.6%	5.5%	2.1%	5.2%	2.4%	0.8%	0.6%	3.5%	1.8%	3.4%

Source: Raymond James Ltd., Canadian Pacific Railway

## Exhibit 9: CNR Financial Estimates Summary

CANADIAN NATIONAL	2017	2018	1Q19	2Q19	3Q19	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E
<b>Key Metrics (C\$ mlns):</b>													
Consolidated Revenue	13,041	14,321	3,544	3,959	3,830	3,459	14,792	3,700	4,150	4,062	3,923	15,835	16,592
Operating Expenses	7,483	8,828	2,464	2,277	2,217	2,304	9,262	2,456	2,335	2,311	2,415	9,518	9,728
Operating Income (EBIT)	5,558	5,493	1,080	1,682	1,613	1,156	5,531	1,243	1,815	1,751	1,508	6,317	6,864
Net Income	5,484	4,328	786	1,362	1,195	845	4,188	888	1,329	1,281	1,100	4,599	4,989
EPS (f.d., cont. ops.):	\$4.99	\$5.50	\$1.17	\$1.73	\$1.66	\$1.18	\$5.73	\$1.24	\$1.87	\$1.82	\$1.57	\$6.50	\$7.25
Share Count	746.2	728.4	728.4	728.4	728.4	728.4	714.7	714.7	714.7	714.7	714.7	699.7	685.2
Operating Ratio (% unadj.)	57.4	61.6	67.2	57.5	57.9	66.6	62.6	66.4	56.3	56.9	61.6	60.1	58.6
<b>Carloads (thousands)</b>													
Petroleum & Chemicals	614	653	168	174	177	169	688	183	185	186	183	737	756
Metals & Minerals	995	1,030	235	269	270	232	1,006	241	273	274	253	1,041	1,056
Forest Products	424	418	96	100	93	86	375	94	99	97	96	386	397
Coal	303	346	80	90	86	79	335	82	95	90	88	355	374
Grain & Fertilizers	619	632	149	167	145	157	618	152	170	151	168	641	635
Automotive	268	263	66	75	67	61	269	67	77	68	65	277	280
Intermodal	2,514	2,634	624	663	693	667	2,647	646	680	710	707	2,742	2,838
Total	5,737	5,976	1,418	1,538	1,531	1,450	5,937	1,465	1,579	1,576	1,560	6,180	6,337
Growth (Y/Y%)	10.2%	4.2%	0.7%	2.1%	0.4%	-5.7%	-0.7%	3.3%	2.7%	2.9%	7.6%	4.1%	2.5%
<b>RTMs (mlns)</b>													
Petroleum & Chemicals	44,375	50,722	12,749	14,357	14,042	12,745	53,893	14,826	15,834	15,186	14,636	60,481	62,377
Metals & Minerals	27,938	27,993	6,570	6,832	6,458	5,577	25,437	6,734	6,934	6,555	6,079	26,303	26,883
Forest Products	30,510	29,918	6,818	7,271	6,813	6,255	27,157	6,781	7,270	7,220	7,171	28,442	30,027
Coal	14,539	17,927	4,294	4,699	4,563	4,084	17,640	4,511	5,051	4,827	4,803	19,192	20,608
Grain & Fertilizers	56,123	57,819	13,867	15,045	12,722	13,966	55,600	13,649	15,883	13,297	15,392	58,222	57,520
Automotive	4,257	3,884	921	1,091	957	767	3,736	941	1,115	978	815	3,849	3,888
Intermodal	59,356	60,120	13,848	15,034	15,294	13,622	57,798	14,261	15,333	15,598	14,728	59,920	61,893
Total	237,098	248,383	59,067	64,329	60,849	57,018	241,263	61,703	67,421	63,661	63,624	256,409	263,197
Growth (Y/Y%)	10.6%	4.8%	3.3%	2.1%	-1.3%	-14.3%	-2.9%	4.5%	4.8%	4.6%	11.6%	6.3%	2.6%
<b>Yield (Cents/RTM)</b>													
Petroleum & Chemicals	4.98	5.24	5.77	5.40	5.61	5.47	5.56	5.29	5.25	5.47	5.29	5.33	5.26
Metals & Minerals	5.45	6.03	6.41	6.44	6.58	6.69	6.52	6.50	6.52	6.73	6.92	6.66	6.87
Forest Products	5.86	6.30	6.69	6.70	6.61	6.90	6.72	6.79	6.79	6.76	7.14	6.87	7.08
Coal	3.68	3.69	3.80	3.77	3.68	3.55	3.70	3.73	3.66	3.66	3.60	3.66	3.70
Grain & Fertilizers	3.94	4.08	4.16	4.26	4.34	4.14	4.22	4.26	4.34	4.48	4.34	4.35	4.48
Intermodal	5.39	5.76	6.14	6.60	6.66	6.18	6.40	6.38	6.74	6.95	6.52	6.65	6.86
Automotive	19.38	21.37	22.91	22.64	22.68	24.35	23.07	23.73	23.44	23.58	25.41	23.96	24.96
Total	5.18	5.45	5.78	5.84	5.95	5.71	5.82	5.78	5.85	6.04	5.84	5.88	6.01
Growth (Y/Y%)	-1.9%	5.2%	7.8%	7.7%	5.8%	5.5%	6.7%	0.0%	0.2%	1.6%	2.2%	1.0%	2.2%

Source: Raymond James Ltd., Canadian National Railway



## CANADIAN NATIONAL RAILWAY (CNR-TSX)

## Market Perform 3

Target Price C\$130.00 ↓ old: C\$135.00

Suitability Medium Risk/Growth

## MARKET DATA

Current Price (Dec-17-19)	C\$117.04
Market Cap (mln)	C\$84,058
Current Net Debt (mln)	C\$13,510
Enterprise Value (mln)	C\$97,568
Shares Outstanding (mln)	718.2
30-Day Avg. Daily Value (mln)	C\$133.3
Dividend	C\$2.15
Dividend Yield	1.8%
52-Week Range	C\$96.46 - C\$127.96
Net Debt/Equity (mrq)	0.3x
Net Debt/Trailing EBITDA (mrq)	1.8x
BVPS	25.66

## KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EPS C\$ (C\$, Dec FY)				
2018A	1.00	1.51	1.50	1.49
2019E	1.17	1.73	1.66	1.44
<b>new</b>	<b>1.17</b>	<b>1.73</b>	<b>1.66</b>	<b>1.18</b>
2020E	NM	NM	NM	NM
<b>new</b>	<b>1.24 A</b>	<b>1.87 A</b>	<b>1.82</b>	<b>1.57</b>
2021E				
EPS C\$ (C\$, Dec FY)				
old	5.50	5.99	6.90	NA
<b>new</b>	<b>5.50</b>	<b>5.73</b>	<b>6.50</b>	<b>7.25</b>
P/E (C\$)	21.3x	20.4x	18.0x	16.1x

	2018A	2019E	2020E	2021E
EPS C\$ (C\$, Dec FY)				
old	5.50	5.99	6.90	NA
<b>new</b>	<b>5.50</b>	<b>5.73</b>	<b>6.50</b>	<b>7.25</b>
P/E (C\$)	21.3x	20.4x	18.0x	16.1x

	2018A	2019E	2020E	2021E
EBITDA (mln) (C\$, Dec FY)				
old	6,822	7,323	8,141	NA
<b>new</b>	<b>6,822</b>	<b>7,078</b>	<b>7,819</b>	<b>8,389</b>
EV/EBITDA	14.3x	13.8x	12.5x	11.6x
Revenue (mln) (C\$, Dec FY)				
old	14,321	15,049	16,229	NA
<b>new</b>	<b>14,321</b>	<b>14,792</b>	<b>15,835</b>	<b>16,592</b>
RTMs (mln) (Dec FY)				
old	248,383	245,059	258,324	NA
<b>new</b>	<b>248,383</b>	<b>241,263</b>	<b>256,409</b>	<b>263,197</b>
Carloads (000s) (Dec FY)				
old	5,976	5,969	6,174	NA
<b>new</b>	<b>5,976</b>	<b>5,937</b>	<b>6,180</b>	<b>6,337</b>
Operating Ratio (Dec FY)				
old	61.6%	61.6%	59.1%	NA
<b>new</b>	<b>61.6%</b>	<b>62.6%</b>	<b>60.1%</b>	<b>58.6%</b>

Source: Thomson One, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

## CANADIAN PACIFIC RAILWAY LIMITED (CP-TSX)

## Outperform 2

Target Price C\$365.00 ↑ old: C\$340.00

Suitability Medium Risk/Growth

## MARKET DATA

Current Price (Dec-17-19)	C\$333.13
Market Cap (mln)	C\$46,005
Current Net Debt (mln)	C\$8,838
Enterprise Value (mln)	C\$54,843
Shares Outstanding (mln)	138.1
30-Day Avg. Daily Value (mln)	C\$90.5
Dividend	C\$3.14
Dividend Yield	1.0%
52-Week Range	C\$228.35 - C\$336.67
Net Debt/Equity (mrq)	1.2x
Net Debt/Trailing EBITDA (mrq)	2.3x
BVPS	C\$52.02

## KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EPS C\$ (C\$, Dec FY)				
2018A	2.70	3.16	4.12	4.55
2019E	2.79	4.30	4.58	4.52
<b>new</b>	<b>2.79 A</b>	<b>4.30 A</b>	<b>4.58 A</b>	<b>4.58</b>
2020E	NA	NA	NA	NA
<b>new</b>	<b>3.69</b>	<b>4.79</b>	<b>5.13</b>	<b>4.94</b>
2021E	NA	NA	NA	NA
EPS C\$ (C\$, Dec FY)				
old	14.53	16.18	18.56	NA
<b>new</b>	<b>14.53</b>	<b>16.24</b>	<b>18.55</b>	<b>20.24</b>

	2018A	2019E	2020E	2021E
EPS C\$ (C\$, Dec FY)				
old	14.53	16.18	18.56	NA
<b>new</b>	<b>14.53</b>	<b>16.24</b>	<b>18.55</b>	<b>20.24</b>

	2018A	2019E	2020E	2021E
P/E (Dec FY)				
old	19.8x	17.7x	15.5x	NA
<b>new</b>	<b>22.9x</b>	<b>20.5x</b>	<b>18.0x</b>	<b>16.5x</b>
EBITDA (mln) (C\$, Dec FY)				
old	3,527	3,765	4,064	NA
<b>new</b>	<b>3,527</b>	<b>3,771</b>	<b>4,139</b>	<b>4,395</b>
EV/EBITDA (Dec FY)				
old	13.7x	12.9x	11.9x	NA
<b>new</b>	<b>15.5x</b>	<b>14.5x</b>	<b>13.3x</b>	<b>12.5x</b>
Revenue (mln) (C\$, Dec FY)				
old	7,316	7,653	8,214	NA
<b>new</b>	<b>7,316</b>	<b>7,712</b>	<b>8,224</b>	<b>8,666</b>
RTMs (mln) (Dec FY)				
old	154,207	152,267	160,499	NA
<b>new</b>	<b>154,207</b>	<b>154,354</b>	<b>161,907</b>	<b>166,924</b>
Carloads (000s) (Dec FY)				
old	2,740	2,765	2,862	NA
<b>new</b>	<b>2,740</b>	<b>2,778</b>	<b>2,888</b>	<b>2,948</b>
Operating Ratio (Dec FY)				
old	61.3%	60.1%	59.5%	NA
<b>new</b>	<b>61.3%</b>	<b>60.4%</b>	<b>58.9%</b>	<b>58.3%</b>

Source: Thomson One, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

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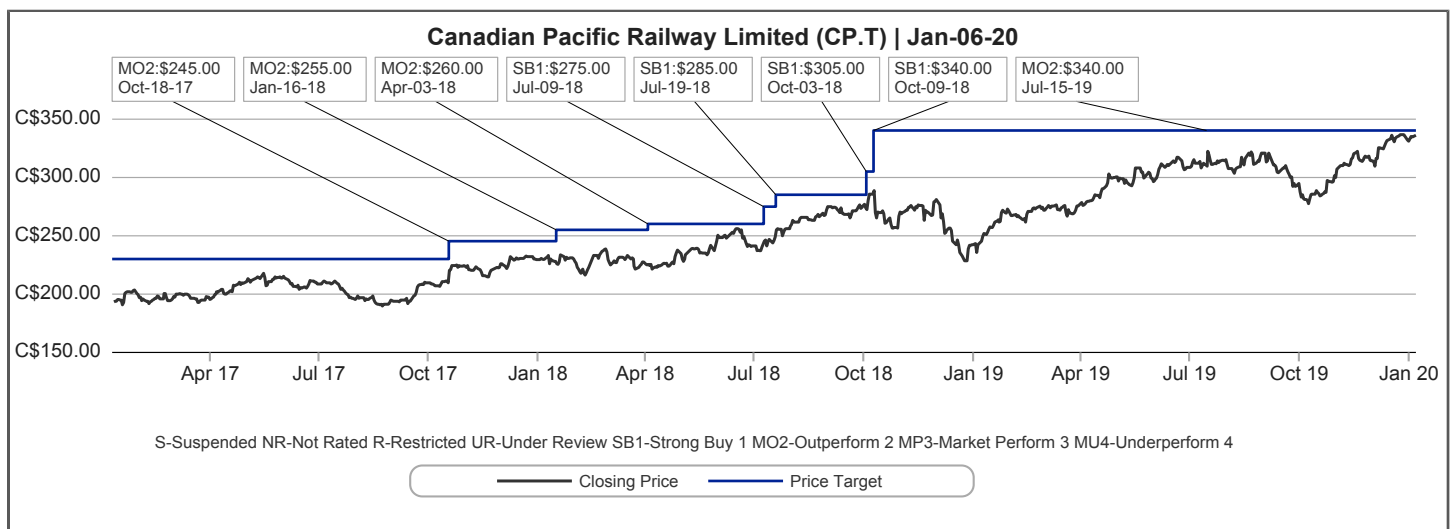
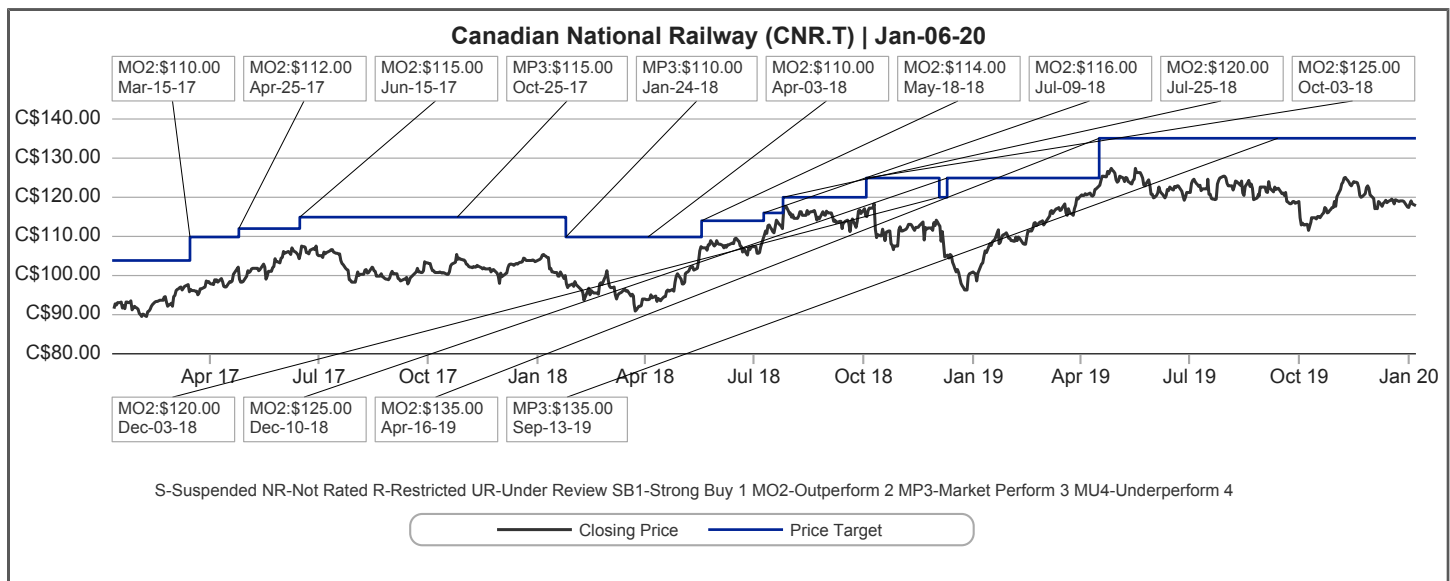
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#### Canadian National Railway

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- (iv) higher fuel costs, increased pension fund contributions and weather/climate changes
- (v) changes in environmental compliance requirements or violations of existing regulations and/or laws
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