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Return on Investment

Current Share Price	\$141.81
Target Price	\$154.00
Dividend Yield	1.62%
Holding Period Return	10%
Conviction Rating	2

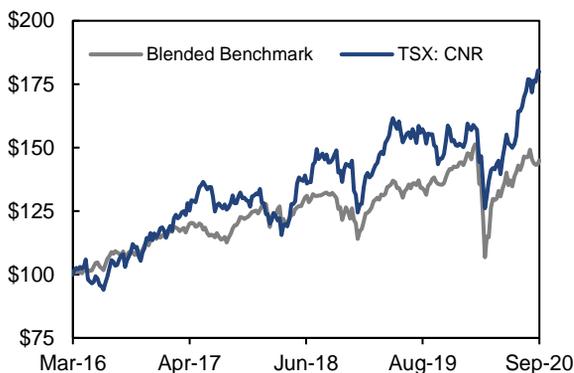
Market Profile

52-Week Range	\$95.90 - \$142.68
Market Capitalization (\$mm)	\$100,784
Net Debt (\$mm)	\$14,238
Enterprise Value (\$mm)	\$115,022
Beta (5-Year Monthly)	0.89

Metrics

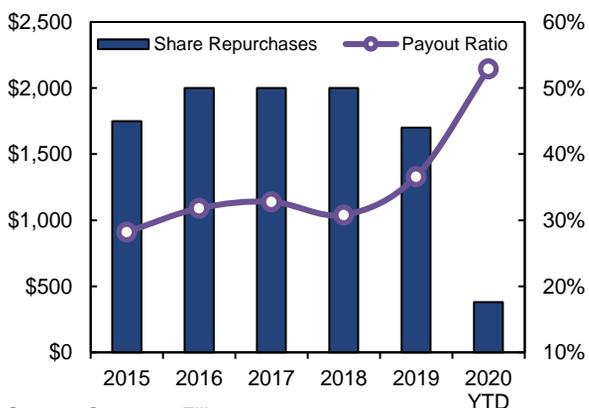
	2020E	2021E	2022E
Revenue (\$mm)	\$14,624	\$15,634	\$16,689
EBITDA (\$mm)	\$6,914	\$7,682	\$8,155
EPS	\$5.71	\$6.09	\$6.57
EV/EBITDA	16.6x	15.0x	14.1x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Share Repurchases (\$mm) & Payout Ratio



Source: Company Filings

Business Description

Canadian National Railway Company (TSX: CNR) operates in the transportation industry with a primary focus on railways. CNR has the only transcontinental railway in North America, as its network of ~32,000km spans to the coasts of the Atlantic, the Pacific, and the Gulf of Mexico. The Company offers fully integrated rail and related transportation services that include intermodal transportation, freight forwarding, trucking, warehousing, and distribution.

Industry Overview

The North American rail transportation industry saw a decline in annual revenue in 2020 due to the adverse economic impacts of the COVID-19 pandemic. Total 2020 revenues in the U.S. and Canada are expected to decline by 14.1% and 3.3%, respectively. Border closures between the two countries reduced the demand for freight transportation, which is a significant driver for the industry's performance. In the near term, lower consumer activity is expected to reduce downstream demand for freight transportation. However, the industry is forecasted to experience sustained growth in revenue, with the U.S. and Canadian markets seeing annual revenue growth of 3.4% and 3.7% over the next five years, respectively. The industry's positive outlook is attributed to improving trade volumes, consumer confidence, agricultural demands, and manufacturing output. These factors increase the demand for domestic and foreign goods transportation, which in turn enables the industry to expand. Nonetheless, the transportation of certain commodities, such as coal, is expected to fall in the coming years due to lower demand.

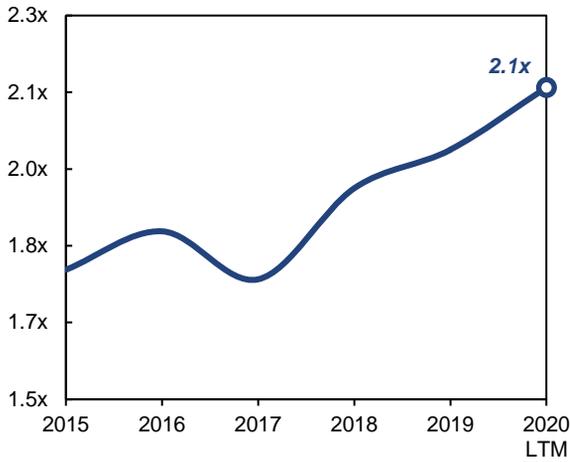
Balance Sheet Health

CNR continues to showcase balance sheet strength, as the Company has increased its current ratio from a 0.6 – 0.7x range to 0.9x in the most recent quarter. Additionally, CNR has been very consistent in maintaining a debt ratio of ~0.6x over every quarter in the last five years. The Company has also maintained its interest coverage ratio at over 16.5x in recent quarters, which is in line with its historical range.

Management Team

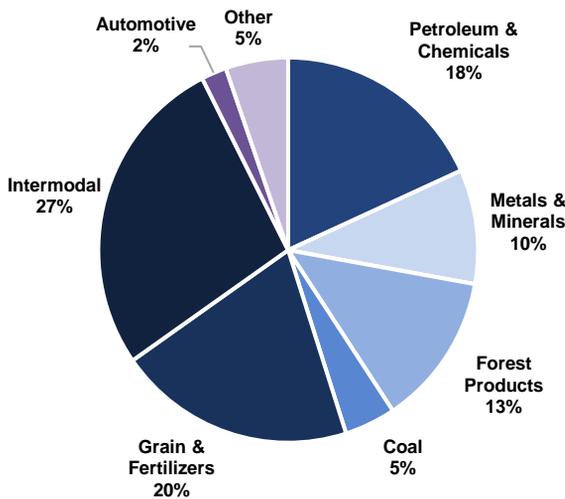
CNR is led by President and CEO Jean-Jacques Ruest, who has been with the Company for over two decades. The Company's disciplined and balanced approach to capital allocation has consistently created value for its customers and shareholders for decades. This has been achieved through conducting accretive acquisitions and continually growing dividends. Although share repurchases paused in 2020, CNR has increased its dividend every year since its IPO in 1996, and 2020 dividends rose by 7% YoY. Despite the pandemic's economic setbacks, the Company remains committed to its long-term strategy of making high-quality investments, enforcing cost controls, and incorporating innovative technologies into operations. Most notably, these commitments are evident in CNR's recent \$2.9B capital investment plan that primarily focuses on expanding its grain transportation. Additionally, over 80% of CNR's employees are involved in the Company's Employee Share Investment Plan and own over \$700mm in CNR stock as of September 2020.

Figure 2: LTM Total Debt/EBITDA Multiple



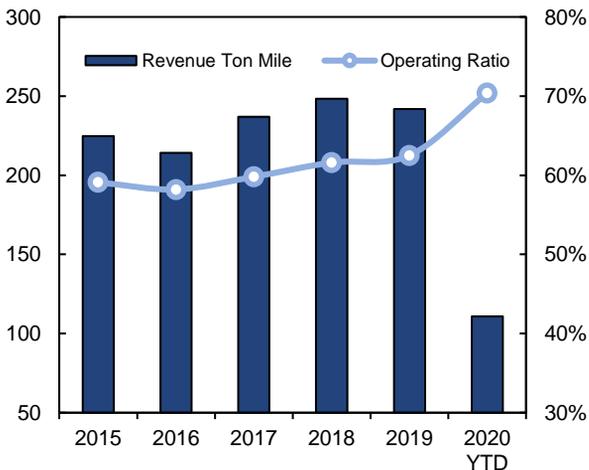
Source: Company Filings

Figure 3: Q2 2020 Revenue Breakdown by Segment



Source: Company Filings

Figure 4: Revenue Ton Mile (B) & Operating Ratio



Source: Company Filings

Growing Free Cash Flows

CNR's FCFs have increased at a CAGR of ~3.5% over the last seven years. Furthermore, the Company announced during the pandemic that it is committed to generating at least \$2.5B in annual FCFs in order to maintain its targeted 2020 dividend growth of 7%.

Competitive Advantage

One of CNR's greatest advantages comes from its ability to grow volumes and its network through acquisitions, strategic partnerships, and investments. The Company targets projects that create incremental rail volume and cost synergies. For example, CNR's TransX transaction allowed it to obtain expertise in logistics, temperature-controlled offerings, and supply chain networks, which drove incremental rail volumes in its intermodal unit. The Company's new contract with Teck Resources (TSX: TECK.A) increased its shipment volumes by transporting steelmaking coal to new markets on Canada's west coast. Another competitive advantage for the Company is its use of new technologies. CNR's implementation of autonomous track inspections and automated inspection portals uses the latest sensor and A.I. technology, allowing the Company to monitor tracks and fleets at any time without operational disruptions.

ESG Considerations

CNR places significant importance on conducting operations in an efficient, ethical, environmentally responsible, and safe manner that develops a more sustainable future. As a result, CNR leads its North American peers by consuming ~15% less fuel per gross ton-mile of freight transport and has improved its locomotive emission intensity by 38% over the past 25 years. The Company was the first of its North American peers to set a 29% reduction target for its carbon emissions by 2030 (based on 2015 levels). CNR has also set a target of having ~30% of its executive team be composed of women (and at least 33% of directors being women). Much of the Company's executive compensations are based on ESG objectives on safety, environmental impacts, and fuel efficiency.

Risks

With falling oil prices, other forms of fuel-intensive transportation, like trucking, can reduce the rail industry's market share. Growing trade tensions can also curtail the industry's expansion if barriers are imposed. Lastly, the decline of energy commodities demand could significantly decrease CNR's volumes and impact its top-line growth.

Revised Investment Thesis and Valuation

CNR was valued through a 50/50 blended DCF and comparable analysis against peers (TSX: CP, NASDAQ: CSX, NYSE: KSU, NSC, UNP). Using a peer group average EV/EBITDA multiple of 13.9x and a WACC of 4.64%, the CPMT arrived at a target price of \$154, which corresponds to a 10% holding period return. The EV/EBITDA multiple used in the comparative analysis was chosen due to the debt-heavy nature of the rail transportation industry. The model is revenue-based, with estimates generated using a combination of historical growth rates and Company announcements and outlook. The Fund's original investment thesis on CNR was that it displays strong financial performance, with diverse revenue streams across North America, making it resilient during economic fluctuations. The CPMT maintains this stance as CNR has held operating ratios at competitive levels while increasing transport volumes. Furthermore, CNR's expansion into the grain industry and investments in innovative technologies support the Fund's outlook.