

**CANADIAN NATIONAL RAILWAY CO**

**CNR.**

Canadian National Railway's Q4 results have just been updated on Stockpointer.

Report Date : 27Jan16 Price : \$ 71.74

Address: 935 de La Gauchetiere Street West  
 Montreal, Quebec CANADA H3B 2M9  
 Telephone: 514-399-7091  
 Stock Exchange: TSE  
 Web Site: www.cn.ca  
 Fiscal Year: December  
 Economic Sector: Industrial  
 SIC: 4011  
 Price / Earning Ratio: 16.2  
 Price / Book Value Ratio: 3.64  
 Currency: CND \$ in Millions

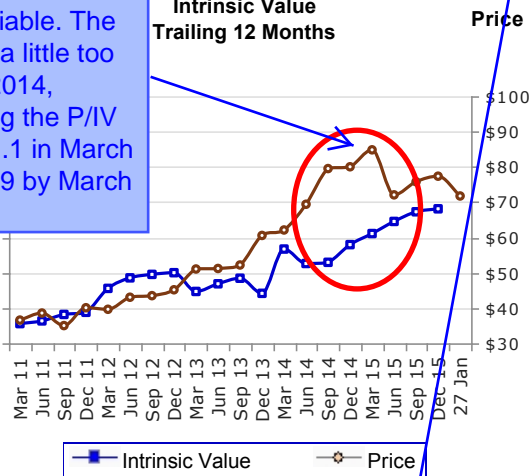
Intrinsic Value	IV	Price / IV
Trailing 12 Months :	\$ 68.11	1.05
Trailing 36 Months :	\$ 58.86	1.22
Market Value Added (MVA)	\$	%
Market Value of Total Capital :	66,550.324	100.0%
- Invested Capital :	25,814.562	38.8%
= Market Value Added :	40,735.762	61.2%
Future Growth Value (FGV)	\$	%
Market Value of Total Capital :	66,550.324	100.0%
- Current Operating Value :	56,409.926	84.8%
= Future Growth Value :	10,140.398	15.2%

As the majority of you already know, the stock has been going through a difficult period for almost 12 months. However, on a fundamental level the company's performance has never really slowed down, even accelerating since the end of 2013.

Peers US: ALK CAR CHRW CNI CSX EXPD HTZ JBHT JBLU LFL NSC R RYAA YXO YRCW  
 P: DA.A EIF. GPW. HNZ.A LGT.B STB. TFI. TMA. WJA. WTE.

In fact, the drop in the stock's price in the last couple of months is totally justifiable. The market got a little too excited in 2014, transforming the P/IV ratio from 1.1 in March 2014 to 1.39 by March 2015.

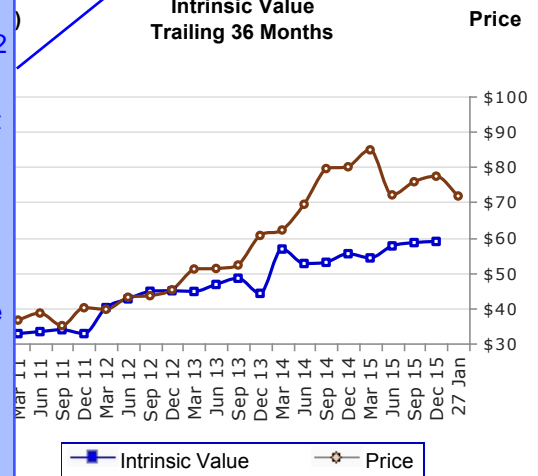
Intrinsic Value Trailing 12 Months



INTRINSIC VALUE

Since March 2015, the price of the stock has decreased from \$84.82 to \$71.74 (as of January 27<sup>th</sup>), while at the same time the intrinsic value has continued to increase in a very stable and linear fashion and reaching, thanks to the Q4 results, \$68.11. The P/IV ratio is therefore now at a much more conservative level of 1.05. This ratio is even lower than its 5-year average of 1.16.

Intrinsic Value Trailing 36 Months



Trailing 12 Months				
Dec11	Dec12	Dec13	Dec14	Dec15
2,776.903	3,008.258	2,937.975	3,501.939	4,220.603
21,427.866	21,866.742	22,261.583	24,838.539	25,814.562
13.0%	13.8%	13.2%	14.1%	16.3%
6.7%	6.4%	7.1%	7.5%	7.5%
6.3%	7.4%	6.1%	6.6%	8.9%

Trailing 36 Months				
Dec11	Dec12	Dec13	Dec14	Dec15
2,477.121	2,731.068	2,907.712	3,149.391	3,553.506
21,427.866	21,866.742	22,261.583	24,838.539	25,814.562
11.3%	12.6%	13.3%	13.7%	14.6%
6.7%	6.4%	7.1%	7.5%	7.5%
4.6%	6.2%	6.2%	6.2%	7.1%

PERFORMANCE					VALUATION					
2,776.903	3,008.258	2,937.975	3,501.939	4,220.603	NOPAT	2,477.121	2,731.068	2,907.712	3,149.391	3,553.506
21,427.866	21,866.742	22,261.583	24,838.539	25,814.562	+ Capital	21,427.866	21,866.742	22,261.583	24,838.539	25,814.562
13.0%	13.8%	13.2%	14.1%	16.3%	= Return / Capital	11.3%	12.6%	13.3%	13.7%	14.6%
6.7%	6.4%	7.1%	7.5%	7.5%	- Cost of Capital	6.7%	6.4%	7.1%	7.5%	7.5%
6.3%	7.4%	6.1%	6.6%	8.9%	= Performance Spread	4.6%	6.2%	6.2%	6.2%	7.1%
20,622.379	28,358.468	21,957.426	30,582.534	37,552.726	Future EVA	15,265.109	23,961.529	21,957.426	28,494.872	30,230.088
22,134.983	22,555.853	23,035.489	25,753.090	26,762.869	+ Capital (Adj. Mid-Year)	22,134.983	22,555.853	23,035.489	25,753.090	26,762.869
42,757.363	50,914.321	44,992.915	56,335.624	64,315.595	= Total IV	37,400.093	46,517.382	44,992.915	54,247.962	56,992.958
6,441.000	6,323.000	6,819.000	7,865.000	8,985.000	- Long Term Debt	6,441.000	6,323.000	6,819.000	7,865.000	8,985.000
1,857.000	1,560.000	1,356.000	1,354.000	1,364.000	- Other Liabilities	1,857.000	1,560.000	1,356.000	1,354.000	1,364.000
34,459.363	43,031.321	36,817.915	47,116.624	53,966.595	= IV of Equity	29,102.093	38,634.382	36,817.915	45,028.962	46,643.958
888.600	860.600	833.800	813.000	792.400	+ Shares Outstanding	888.600	860.600	833.800	813.000	792.400
\$ 38.78	\$ 50.00	\$ 44.16	\$ 57.95	\$ 68.11	= IV of a Share	\$ 32.75	\$ 44.89	\$ 44.16	\$ 55.39	\$ 58.86
\$ 40.08	\$ 45.17	\$ 60.56	\$ 80.02	\$ 77.35	Share Price	\$ 40.08	\$ 45.17	\$ 60.56	\$ 80.02	\$ 77.35
1.03	0.90	1.37	1.38	1.14	Price / Intrin. Value	1.22	1.01	1.37	1.44	1.31

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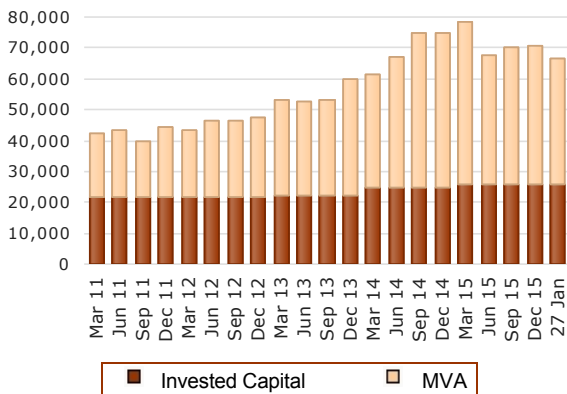
The future growth value (FGV) leads us towards the same conclusion. The market had granted an elevated premium to CNR's stock in 2014 for high expected growth, and this premium represented almost 40% of the total market value in December 2014.

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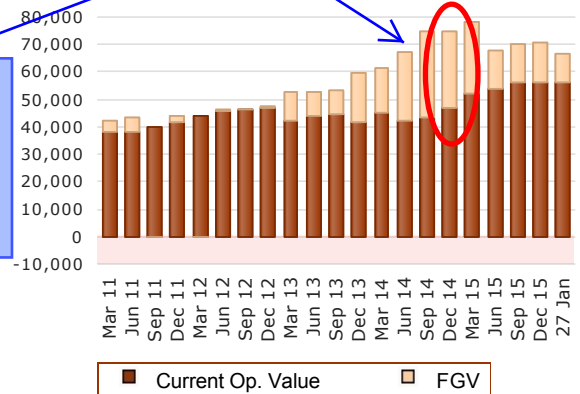
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**MARKET PERFORMANCE**

(M\$) Market Value Added (MVA)



(M\$) Future Growth Value (FGV)



The premium has substantially diminished and has, as of January 27<sup>th</sup>, reached around 15%.

Trailing 12 Months					Quarterly					
Dec11	Dec12	Dec13	Dec14	Dec15	Price	Dec14	Mar15	Jun15	Sep15	Dec15
\$ 40.08	\$ 45.17	\$ 60.56	\$ 80.02	\$ 77.35		\$ 80.02	\$ 84.82	\$ 72.06	\$ 75.78	\$ 77.35
<b>Market Value Added (MVA)</b>										
44,211.515	47,515.416	59,869.139	74,945.212	70,958.662	Total Market Value	74,945.212	78,397.741	67,716.942	70,225.097	70,958.662
21,427.866	21,866.742	22,261.583	24,838.539	25,814.562	- Invested Capital	24,838.539	25,814.562	25,814.562	25,814.562	25,814.562
<b>22,783.649</b>	<b>25,648.675</b>	<b>37,607.556</b>	<b>50,106.673</b>	<b>45,144.100</b>	= MVA	<b>50,106.673</b>	<b>52,583.179</b>	<b>41,902.380</b>	<b>44,410.534</b>	<b>45,144.100</b>
52%	54%	63%	67%	64%	% Market Value	67%	67%	62%	63%	64%
<b>Current Operating Value (COV)</b>										
2,776.903	3,008.258	2,937.975	3,501.939	4,220.603	NOPAT	3,501.939	3,671.393	3,789.521	4,027.837	4,220.603
6.7%	6.4%	7.1%	7.5%	7.5%	÷ Cost of Capital	7.5%	7.0%	7.0%	7.1%	7.5%
<b>41,391.449</b>	<b>46,988.286</b>	<b>41,533.801</b>	<b>46,695.377</b>	<b>56,409.926</b>	= COV	<b>46,695.377</b>	<b>52,240.875</b>	<b>53,791.184</b>	<b>56,359.324</b>	<b>56,409.926</b>
94%	99%	69%	62%	79%	% Market Value	62%	67%	79%	80%	79%
<b>Future Growth Value (FGV)</b>										
44,211.515	47,515.416	59,869.139	74,945.212	70,958.662	Total Market Value	74,945.212	78,397.741	67,716.942	70,225.097	70,958.662
41,391.449	46,988.286	41,533.801	46,695.377	56,409.926	- COV	46,695.377	52,240.875	53,791.184	56,359.324	56,409.926
<b>2,820.065</b>	<b>527.130</b>	<b>18,335.337</b>	<b>28,249.836</b>	<b>14,548.736</b>	= FGV	<b>28,249.836</b>	<b>26,156.866</b>	<b>13,925.758</b>	<b>13,865.773</b>	<b>14,548.736</b>
6%	1%	31%	38%	21%	% Market Value	38%	33%	21%	20%	21%

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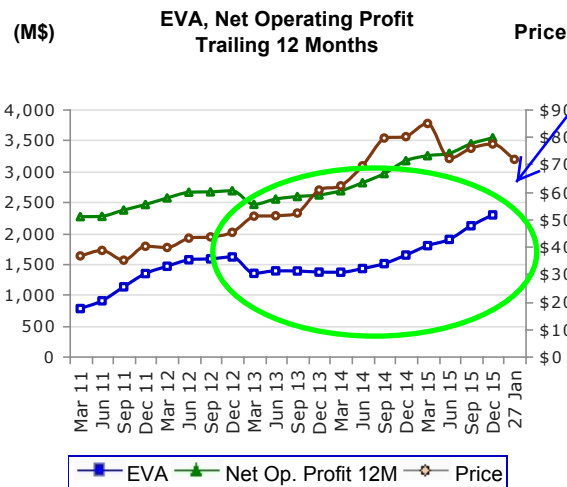
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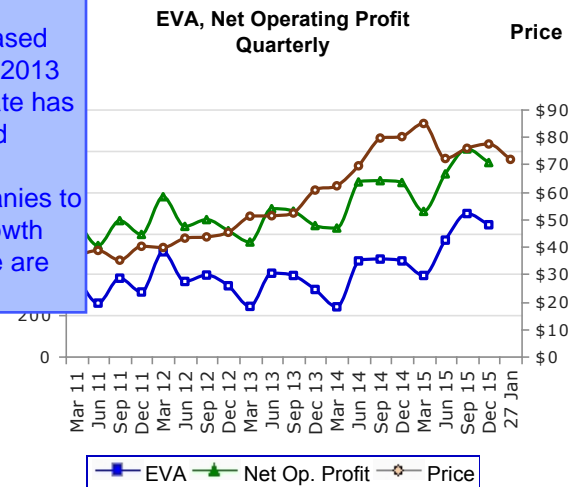
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**ECONOMIC PERFORMANCE**



CNR's EVA has constantly increased since the end of 2013 and its growth rate has even accelerated during the last 6 quarters. Companies to offer an EVA growth that is this stable are not easy to find.



**Trailing 12 Months**

**Quarterly**

Dec11	Dec12	Dec13	Dec14	Dec15		Dec14	Mar15	Jun15	Sep15	Dec15
<b>Net Operating Profit After Tax (NOPAT)</b>										
3,296.000	3,685.000	3,873.000	4,624.000	5,266.000	Operating Profit	1,260.000	1,063.000	1,362.000	1,487.000	1,354.000
587.627	514.963	252.303	283.802	333.153	+ Adjustments	57.201	82.076	82.751	79.938	88.388
1,106.725	1,191.706	1,187.328	1,405.863	1,378.550	- Income Tax	388.216	269.638	397.638	390.638	320.638
<b>2,776.903</b>	<b>3,008.258</b>	<b>2,937.975</b>	<b>3,501.939</b>	<b>4,220.603</b>	<b>= NOPAT</b>	<b>928.985</b>	<b>875.438</b>	<b>1,047.113</b>	<b>1,176.301</b>	<b>1,121.751</b>
<b>Economic Value Added (EVA)</b>										
2,776.903	3,008.258	2,937.975	3,501.939	4,220.603	NOPAT	928.985	875.438	1,047.113	1,176.301	1,121.751
1,437.570	1,399.940	1,574.717	1,862.777	1,931.451	- Capital Charge	465.694	482.863	482.863	482.863	482.863
<b>1,339.333</b>	<b>1,608.317</b>	<b>1,363.258</b>	<b>1,639.163</b>	<b>2,289.152</b>	<b>= EVA</b>	<b>463.291</b>	<b>392.575</b>	<b>564.250</b>	<b>693.438</b>	<b>638.888</b>
845.523	268.984	(245.059)	275.905	649.989	Change in EVA	(9.000)	(70.715)	171.675	129.188	(54.550)
<b>Analysis</b>										
21,427.866	21,866.742	22,261.583	24,838.539	25,814.562	Capital	24,838.539	25,814.562	25,814.562	25,814.562	25,814.562
13.0%	13.8%	13.2%	14.1%	16.3%	Return / Capital	3.7%	3.4%	4.1%	4.6%	4.3%
1.93	2.15	1.87	1.88	2.19	Performance Index	0.50	0.48	0.58	0.64	0.58
0.06	0.07	0.05	0.06	0.09	EVA / Capital	0.02	0.02	0.02	0.03	0.02
\$ 1.51	\$ 1.87	\$ 1.63	\$ 2.02	\$ 2.89	EVA / Share	\$ 0.57	\$ 0.49	\$ 0.70	\$ 0.87	\$ 0.81
\$ 0.97	\$ 0.36	\$ (0.23)	\$ 0.38	\$ 0.87	Change in EVA / Share	\$ (0.01)	\$ (0.08)	\$ 0.22	\$ 0.17	\$ (0.06)

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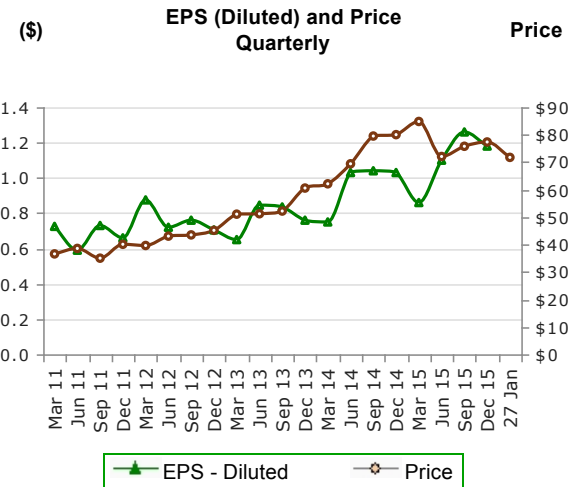
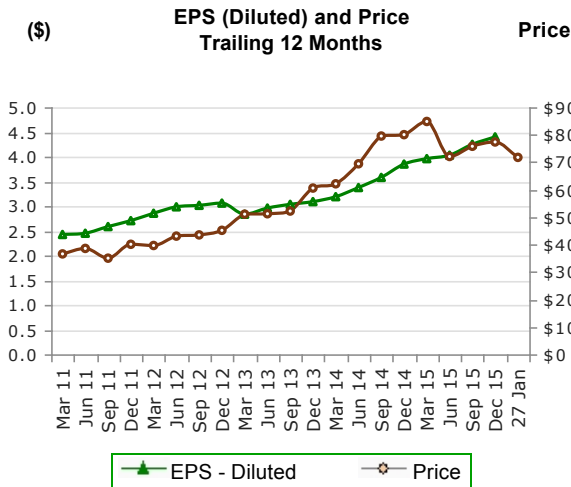
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**ACCOUNTING PERFORMANCE**



**Trailing 12 Months**

**Quarterly**

Dec11	Dec12	Dec13	Dec14	Dec15	Dec14	Mar15	Jun15	Sep15	Dec15
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**Selected Income Statement Items**

9,028.000	9,920.000	10,575.000	12,134.000	12,611.000	<b>Sales</b>	3,207.000	3,098.000	3,125.000	3,222.000	3,166.000
4,848.000	5,311.000	5,722.000	6,460.000	6,187.000	<b>Cost of Goods Sold</b>	1,668.000	1,739.000	1,478.000	1,448.000	1,522.000
@NA	@NA	@NA	@NA	@NA	<b>R + D</b>	@NA	@NA	@NA	@NA	@NA
3,296.000	3,685.000	3,873.000	4,624.000	5,266.000	<b>Operating Profit</b>	1,260.000	1,063.000	1,362.000	1,487.000	1,354.000
2,457.000	2,680.000	2,612.000	3,167.000	3,538.000	<b>Net Income</b>	844.000	704.000	886.000	1,007.000	941.000
\$ 0.65	\$ 0.75	\$ 0.86	\$ 1.00	\$ 1.25	<b>Dividends</b>	\$ 0.25	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
\$ 2.73	\$ 3.08	\$ 3.10	\$ 3.86	\$ 4.42	<b>EPS</b>	\$ 1.04	\$ 0.87	\$ 1.10	\$ 1.26	\$ 1.19
\$ 2.71	\$ 3.06	\$ 3.09	\$ 3.85	\$ 4.40	<b>EPS - Diluted</b>	\$ 1.03	\$ 0.86	\$ 1.10	\$ 1.26	\$ 1.18
888.600	860.600	833.800	813.000	792.400	<b>Common Shares</b>	813.000	809.400	803.500	797.600	792.400

**Selected Balance Sheet and CashFlow Items**

1,848.000	1,869.000	1,977.000	2,066.000	2,153.000	<b>Current Assets</b>	2,066.000	2,292.000	2,159.000	2,673.000	2,153.000
261.000	249.000	1,959.000	1,212.000	@NA	<b>Other Assets</b>	1,212.000	1,347.000	1,393.000	1,464.000	@NA
1,715.000	2,203.000	2,498.000	2,201.000	2,998.000	<b>Current Liabilities</b>	2,201.000	2,821.000	3,098.000	3,062.000	2,998.000
15,346.000	15,641.000	17,210.000	18,322.000	21,452.000	<b>Total Liabilities</b>	18,322.000	19,752.000	19,651.000	21,356.000	21,452.000
10,680.000	11,018.000	12,953.000	13,470.000	14,950.000	<b>Common Equity</b>	13,470.000	13,744.000	13,954.000	14,467.000	14,950.000
766.000	677.000	851.000	1,266.000	1,438.000	<b>Free CashFlow</b>	(14.000)	272.000	294.000	467.000	405.000

Overall, CNR has succeeded in growing its revenue, operating profit, earnings per share and dividends each year and for the last 5 years. It has equally managed to buy back shares every year as well as maintain positive free cash flows, which are today at their highest level in 5 years.

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