3 Reasons Why Canadian National Railway Company's Stock Could Soar Higher

Description

Canadian National Railway Company (TSX: CNR)(NYSE: CNI) recently reported surging second-quarter profits, which climbed by 18% to $847 million thanks to higher freight volumes, primarily from the record grain crop.

Revenue from moving grain and fertilizers jumped 35%, oil shipment revenues climbed 17% and metal and miners' movement gained 20%.

The company's stock is trading near a 52-week high, but I don't think the rally is over yet. Here are three reasons why the shares could move even higher.

1. Robust demand to transport grains

CN Rail may not be happy that the Canadian government recently increased the amount of grain it's required to ship, however, the expectation of another bumper crop and the government's desire not to have a repeat of last year is excellent news for the company.

The government wants both CN Rail and **Canadian Pacific Railway Limited** (TSX: CP)(NYSE: CP) to move 536,250 metric tonnes of grain per week through November to help remove a bottleneck that followed the record 2013 wheat and canola harvests. Now, for this season the current wheat crop has the potential to be the second largest on record.

CN Rail's CEO voiced his disappointment when the Canadian government announced the new regulations, but investors were happy. They bid the stock up 1.5% shortly after the announcement, and rightfully so. Lots of grain to transport will mean lots of business for Canadian National Railway.

2. Pipeline red tape

With the completion of pipelines to transport oil from Alberta's oil sands across North America currently on hiatus until regulatory approval is obtained, CN Rail is seeing unprecedented demand to transport oil.

CN Rail plays a crucial role in transporting crude oil in North America because the company owns the railway tracks that run to the oil sands in Alberta, and across the continent.

While the completion of the pipelines could be a negative for the company’s stock, CN Rail will continue to benefit from increased demand to transport crude. Even if the pipelines are approved, the company will see a few years of high profits during the time it takes to finish construction of the pipelines.

3. Fleet and safety improvements

A dark cloud hanging over the rail sector has been the uptick in rail crashes recently. If a disaster were to occur it would be very bad news for the impacted company’s stock. That is part of the reason that Canadian National Railway announced this past spring that it will phase out its fleet of 183 older tank rail cars used to transport diesel fuel over the next four years.

The legacy DOT-111 cars will be replaced with cars that meet the latest regulatory standards. DOT-111 tanks have a history of puncturing in accidents.

Canadian National Railway is taking its safety regulations further, and extended a U.S. policy on hazardous materials that includes inspections, restrictions on speeds and other measures to its Canadian operations.

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