5 Reasons Why Canadian National Railway Company Is a Lifetime Investment Stock

Description

Investors looking for a stock they can buy and hold for a lifetime should consider **Canadian National Railway Company** (TSX: CNR)(NYSE: CNI) as their top pick.

Canadian National Railway operates the largest rail network in Canada and the only transcontinental network in North America. Its routes provide its customers with access to three coasts, serving all of the major Canadian markets and close to 75% of the U.S. population.

As a core component of the economy, Canadian National moves more than $250 billion worth of goods every year. The company transports oil, grain, lumber, potash and a variety of other products destined for domestic and foreign markets.

Canadian National's shareholders have been richly rewarded since the company's privatization in 1995. The stock is up more than 180% in the past five years and has increased more than 800% in the past 15 years. The company has also increased its dividend every year.

Here are five reasons why I think investors can buy Canadian National Railway Company and hold it for a lifetime.

1. Best-in-class operating ratio

In its Q2 2014 earnings statement, Canadian National reported that its industry-leading operating ratio improved by 1.3 points to 59.6% compared to Q3 2013. This was achieved as the company continues to grow, reporting record transport volumes.

Why is this important?

The operating ratio is an indication of how efficiently the company is being run. The latest number means for every $1 of operating revenue it earned, the company had expenses of 59.6 cents. Otherwise put, Canadian National had an operating profit of 40.4 cents for every dollar of operating revenue.

Revenue growth is important but it is only beneficial to investors if it can be added at a low incremental cost and Canadian National is managing to do this very well.

Over the years, Canadian National has continued to improve this number. When the company was privatized back in 1995, the ratio was nearly 90%.

2. Strong demand from commodity customers

As the U.S. economy improves, and global demand for food and oil continues to grow, Canadian National is seeing increased volumes being transported for all of its customer groups.

In the second-quarter results, Canadian National reported a 35% increase in grain and fertilizer revenues, a 20% jump in metals and minerals revenues, and a 17% increase in revenue from petroleum and chemical shipments.

3. Intermodal growth

Transport of intermodal containers has historically been more efficient and cost effective using trucks, and for short distances that is still the case.

As diesel prices continue to climb and rail transport become faster and more efficient, rail carriers are becoming more competitive and seeing increased demand for intermodal services.

In Q2 2014, Canadian National's intermodal revenue rose 17%. This trend is likely to continue as the cost of shipping by rail becomes more comparable to moving goods using transport trucks over long distances.

Tighter restrictions being placed on long-haul truckers will also benefit Canadian National and other rail operators.

4. Currency advantages

Much of Canadian National's business is priced in U.S. dollars. Analysts generally expect the Canadian dollar to weaken against its U.S. counterpart in the coming years and this will help Canadian National's margins, especially if it can shift more of its expenses to Canada. Exchange rates can be volatile and investing based on the fundamentals of a business is more important, but the exchange rate environment should be considered when looking at Canadian National's operations.

5. Pricing power

Canadian National is seeing improved pricing for its services, and future freight-rate increases should track above inflation as North American rail traffic continues to grow.

The bottom line

Canadian National Railway Company is one of those rare stocks investors can buy and hold for decades. Despite the strong gains in the share price over the past year, I think the long-term value is still very good.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

Category

1. Investing

Date
2025/08/22
Date Created
2014/08/21
Author
aswalker