Is Canadian National Railway Company a Safe Investment for 2015?

Description

Canadian National Railway Company (TSX: CNR)(NYSE: CNI) is on a roll this year, but the stock has pulled back recently amid the uncertainty facing oil producers. New investors looking to take a position might be wondering if they should hop on now, or sit in the station until the market settles down.

Let's take a look at the company to see if you should add Canadian National Railway to your portfolio for 2015.

Competitive advantage in intermodal

Canadian National Railway is the only North American rail operator that can offer distribution to three coasts. This has been an advantage in winning the business of international intermodal customers, who have traditionally used long-haul truckers. High fuel costs and tighter driving restrictions have hurt the trucking companies, and Canadian National has taken advantage of the opportunity to steal some of their business.

CN sees intermodal as a core part of its future revenue stream and has invested in the expansion of its intermodal assets. The company now operates more than 20 intermodal terminals giving customers more options when transporting goods throughout the U.S. and Canada.

Record earnings

In its Q3 2014 earnings statement, Canadian National reported record net income of $853 million, a 21% year-over-year increase. Higher freight volumes from Canadian grain farmers, oil producers, automotive companies, and new intermodal customers all contributed to the strong results.

Efficiency gains

Canadian National also maintained an industry-leading operating ratio of 58.8% in the third quarter. Upgrading its locomotives is one way the company is improving productivity. The company took delivery of 60 new locomotives in 2014 and expects to add 120 more in 2015-2016.

Share buybacks and dividends

For the 12 months ended October 23, 2014, Canadian National bought back and canceled 22.3 million shares at a total cost of $1.4 billion. In its Q3 2014 earnings statement the company said it plans to buyback and cancel another 28 million shares by Oct 23, 2015.

Canadian National also pays a dividend of $1.00 per share that yields 1.29%. The dividend has more than tripled in the past three years.

Risks for 2015

The slump in oil prices has a number of implications for Canadian National. The company has been winning intermodal business away from truckers in part because high diesel fuel costs were killing the long-haul carriers. With oil prices now down by more than 30%, trucking companies will have access to cheaper fuel and will be able to offer better pricing to win back business.

Canadian National has also picked up a lot of business from oil companies using sand in the hydraulic fracturing of shale formations. The drop in oil prices could make a number of these operations unprofitable and sand demand could drop significantly.

Crude-by-rail deliveries have been growing steadily. In 2014 alone, Canadian shipments have doubled and the growth is expected to continue. Some analysts say Keystone XL and Energy East will hurt the rail carriers, but the projected production increases from the oil sands will probably ensure enough business for everyone.

New regulations that require safer oil cars and slower train speeds could come into effect in the U.S. next year. This could have a negative impact on Canadian National’s margins.

Should you buy?

As a long-term holding, Canadian National is a strong investment. The shares could see further weakness in the near term if oil prices continue to slide and new regulations come into effect to reduce train speeds.

If you think the rail companies are going to be hurt by the drop in oil prices, you might want to read following free report about one top company that continues to grow despite the chaos in the oil market.

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1. Investing

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