Canadian National Railway Company Is the Only Canadian Railroad You Need

Description

Railroads are truly one of the best investments you can make. That's why Warren Buffett bought an entire railroad to add to his portfolio of companies. They are far cheaper when it comes to moving products around. On top of that, when railroads are doing well, the entire economy also tends to be doing well.

Here in Canada, there are only two giant railroads. The only one that I think you should have in your portfolio is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI).

One of the most important data points to analyze when looking at a railroad is how efficient it is. Specifically, you want to look at is its operating ratio. At 58.8%, Canadian National Railway knocks it out of the park. Other railroads are close, but in this business, percentage points really make a difference in the success of the company. The more it has to spend to generate $1 of revenue, the worse off investors are.

Railroads, like many equities, have seen tremendous increases in value over the past few years, especially with the way interest rates are. Canadian National is no different. Despite that, the company has risen at a much more consistent rate than other railroads in the business. While a little high for the sector, a 22.49 P/E is not a bad place for the railroad to be.

Finally, Canadian National pays a consistent dividend. At 1.45%, the company looks to reward its investors. More importantly, that dividend is rising. Because of its strong fourth-quarter results in 2014, the company hiked the dividend by 25%. If the company can continue to generate returns like those in the fourth quarter, dividends could rise even higher. In contrast, some of Canadian National's competitors south of the border pay upwards of 1.8% to 2.1%.

What about oil?

Asking about oil is necessary when looking at Canadian National, which generates a significant amount of money from oil transportation. And I don't really see that going away. Demand for oil is still going up and—fortunately for railroads—there's no cheaper way to get that oil from point A to point B. Some could say pipelines are cheaper, but there's just not enough pipe to transport oil where it needs to go.

Furthermore, as oil prices drop, so to do the diesel costs that Canadian National has to pay. That means that its operating ratio might drop further with fuel costs down. That could help increase the total profits for the company.

In the end, Canadian National is one of my favourite railroads that still has a lot of room to grow financially.

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1. Investing

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1. Editor's Choice

TICKERS GLOBAL

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