



## Canadian National Railway Company: 4 Reasons Investors Should Be All Aboard

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) has been a great investment for the last two decades and that trend should continue.

Here are the reasons why I think investors should consider adding the company to their portfolios right now.

### Competitive advantage

Canadian National Railway operates in an industry with massive barriers to entry. In fact, it could be one of the widest moats in North America. The odds are about zero that a new competitor will ever build a new rail line to compete with the existing rail companies in Canada and the U.S.

While all the railways enjoy this advantage, Canadian National has an extra edge because it is the only rail carrier in North America that can offer its customers access to three coasts.

### Productivity gains

Canadian National Railway has long been considered North America's best-run rail company. In Q4 2014, the operating ratio (a measure of the cost of adding an extra dollar of revenue) came in at 61%. This was slightly higher than the previous three months, but the result is still considered excellent by industry standards.

The company continues to invest in systems and equipment to improve overall efficiency. Train productivity increased by 3% in Q4 2014 compared with the same period in 2013. Yard productivity jumped 7% and locomotive utilization improved by 6%.

The company is also investing heavily in new locomotives, with 60 being added to the fleet in 2014 and another 120 expected to go into service over the next two years.

### Oil transport

There are some concerns in the market that the oil rout will curtail the growth in crude-by-rail transport. Canadian National's customers in the high-cost shale plays might be in for a rough ride, but the overall demand from western Canadian producers should continue to grow.

Oil sands operators are producing as much oil as they possibly can because most of their costs are already sunk into the facilities. Shutting down the plant is extremely expensive, so companies are better off maintaining production even if the oil price dips below their operating cost per barrel.

The lack of major pipelines to move oil is not going to be resolved anytime soon, which means Canadian National should deliver solid crude transport revenues in 2015 and beyond.

### **Dividends and share buybacks**

Canadian National Railway returns a lot of cash to shareholders through its dividend and share-repurchase programs. The company recently increased the dividend by 25% and said it is gradually moving toward a 35% payout ratio, which means more distribution hikes are likely in the works.

### **Should you buy?**

Canadian National Railway is one of those companies you can buy and hold for decades. The company expects double-digit earnings growth in 2015 and investors should see the strong trend continue.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
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