



## Canadian National Railway Company Is the Right Railroad for Investors

### Description

Railroads are an integral part of any advanced economy. In Canada, railroads are the most efficient ways to get goods from the west coast to the east coast and vice versa. Because of how integral they are, I believe that every investor should hold at least one railroad in their portfolio. And in my eyes, **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is the best company that investors should buy.

Unlike all other railroads—especially those in the United States—Canadian National is the only tri-coastal railroad. What that means is that the company has railroads that can pick goods up from the Pacific Ocean, Atlantic Ocean, and the Gulf of Mexico. Many railroads can get from the east coast or west coast to the Gulf of Mexico, but they don't have the ability to hit all three. Canadian National can hit them all.

That ability to get from all the coasts is one of the contributing factors to the overall efficiency of the railroad. When the company doesn't have to remove product from one railroad and reload it onto another, the speed in which goods get from point A to point B increases.

However, it's not just its network that makes Canadian National efficient. The company is spending \$800 million for intermodal terminals, which will allow for even faster loading and unloading. The entire rail network is getting \$1.4 billion in improvements. Finally, the company is spending \$500 million on equipment, such as locomotives.

All of these improvements will help the company's operating ratio improve more. In Q1 2015, the efficiency ratio was 65.7%, which was a significant drop from the previous year's Q1 of 69.6%. By improving the efficiency ratio, the company is able to get more profit out of every single dollar of revenue that it earns. Because of this, net income increased to \$0.86/share from \$0.75/share from the previous year.

What this increase in profit has allowed the company to do is increase cash flow distributed to investors in both dividends and share buybacks. The dividend has been increased every year since 1996 and it currently rests at \$1.25 per share per year, split up over four quarterly payments. This

1.72% yield might seem small, but that's only half of what the company does. The company is also very committed to share buybacks.

All told, Canadian National Railway is probably my favourite railroad on the market. And it has been dropping in price over the past few months, which makes it even more reasonable. The reality is that all the railroads are at least a little overpriced.

However, when looking at Canadian National, it really is the best one to buy. If you want a high-quality, dividend-paying railroad that will be around for decades, Canadian National is definitely the one to buy. It'll make your portfolio much more secure and offer a buffer, especially if stock prices take a hit in the future.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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## Author

jaycodon

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