



5 Reasons to Hold Canadian National Railway Company

Description

Bill Gates owns 14% of **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). Here are a few reasons why you might want to follow his lead.

1. Wide competitive moat

CN is the only railway operator in North America that can offer its customers service to three coasts. In fact, CN's rail network looks like a giant T. It runs coast to coast across Canada and plunges straight down through the centre of the U.S. to the Gulf of Mexico. This is important for investors because international trade is the lifeline for both the Canadian and U.S. economies.

It is very unlikely that a competitor would ever build another rail network along the same routes. That means the company can focus all of its efforts on driving down costs and improving service.

2. Diversified business segments

The great thing about being the backbone of the U.S. economic engine is the fact that revenue comes from a wide variety of customers and industries.

CN has invested heavily in building its intermodal business. The long-haul shipping of containers has historically been dominated by the trucking industry, but improvements in efficiency and tighter restrictions of truckers have opened up a huge opportunity for CN. The company now has 20 intermodal terminals located along its vast network, which means intermodal customers have reliable rail access to all major Canadian cities and 70% of the U.S. market.

The boom in oil-by-rail transport has fueled a lot of CN's profit growth in recent years. That segment is cooling off right now but it isn't going to disappear. Producers are still facing severe pipeline bottlenecks and those issues won't be resolved anytime soon.

Weakness in one sector tends to drive growth in others. The oil rout has pummeled the value of the Canadian dollar and driven down gasoline prices. As a result, Canadian lumber shipments are increasing and the automobile sector is enjoying strong growth. CN is benefiting from higher shipping

demand in both industries.

3. Earnings strength

Despite economic headwinds, CN reported Q2 2015 net income of \$1.10 per share, up from \$1.03 in the same period in 2014.

The other half of the earnings equation is cost control. CN is often cited as North America's most efficient rail operator. The second-quarter operating ratio came in at an impressive 56.4%, down from an already low 59.6% a year earlier. The metric is important because it shows investors how much revenue the company is using to operate the business.

4. Dividend growth and share repurchases

Earlier this year CN increased its dividend by 25% and raised its target payout ratio to 35%. This is great news for investors in a market where dividends are disappearing at a scary rate.

CN also buys back a lot of its stock. In the second quarter alone, CN spent \$400 million on share repurchases.

5. Cheap valuation

CN now trades at a reasonable 15.3 times forward earnings. Investors haven't had a chance to buy the stock this cheaply for quite some time.

Should you buy CN?

In a difficult market it is important to put new money into reliable names that have solid histories of long-term growth. CN is truly one of those stocks you can buy today and comfortably forget about for the next 20 years.

That's why smart investors like Bill Gates have invested so much money into Canadian National Railway.

CATEGORY

1. Investing

TICKERS GLOBAL

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