3 Reasons Investors Should Buy Canadian National Railway Company

Description

When it comes to the health of the economy, one of the best barometers is the railroad industry. If the railroads are growing, that means that there is more need for the transportation of goods. If the railroads start to contract, it can be an early sign that the economy might also be slowing down.

Because the railroads are so integral to a strong economy, I believe every investor should own at least one. The one in particular that I think is a worthwhile investment is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). There are three reasons why I believe this is a good move.

1. A wide moat

One of the primary reasons why I'm so bullish on railroads in general is because there is such a significant barrier to entry for new companies. Consider how much it would cost to launch a new railroad: a company would have to buy or lease land, place the tracks, buy engines and shipping cars, and then market to new clients.

The cost for this would be in the tens of billions. And even when it was done, it would take a significant amount of time before any profit was generated for that new company. Because of this, it is highly unlikely that a new company would come along and launch a competitive railroad, giving Canadian National a significant advantage.

2. Its network is getting stronger

One of the things that I love about Canadian National is that it is the only tri-coastal railroad in North America. What that means is that it hits the Atlantic Ocean, the Pacific Ocean, and the Gulf of Mexico. That gives it access to multiple markets, allowing it to diversify its revenue further.

The company is the exclusive railroad provider for the Port of Prince Rupert, which is owned by DP World of Dubai. This is the fastest growing port in North America; it accounts for a significant amount of shipping for Asia. Further, the port in Mobile, Alabama, is currently undergoing renovations that will give it a 90% increase in capacity.

Both of these ports are going to result in added demand on the Canadian National network of rails, which should push revenue and profits even higher.

3. It rewards investors

Because of its strong network and its even stronger moat, the company is able to generate significant revenue. In the most recent quarter, the company beat revenue expectations, showing $3.125 billion. This resulted in net income of $886 million.

Because of this, the company is able to pay a growing dividend. Recently, the company hiked the dividend by 25% to $0.31 per quarter. While this yield is small in comparison to other companies, the company also invests significant money in share buybacks.

The reality is, Canadian National is one of the strongest railroads that has access to ports all across North America. This should ensure that the company continues growing. And, if the company starts experiencing revenue problems, we'll have an alarm telling us that the economy is slowing. That's always good to know in a portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
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