



Investors Need Railroads: Buy Canadian National Railway Company

Description

Unless you are day trading, I can think of very few reasons why any investor would not want to have a railroad in their portfolio. By and large, railroads are some of the best investments to hold for many reasons. It's why Warren Buffett went out and bought an entire railroad.

The railroad that I believe investors need to have their eye on, above all others, is **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). While many of the railroads are incredible investments, I believe Canadian National will help your portfolio remain secure and profitable.

Here are four reasons why.

Wide moat

Growing up, I'd always loved trains. And I think a small part of me wished that I could be an engineer and maybe even build my own railroad. The second I learned the word "moat" from an investment perspective, I shelved that idea for good. I was young and naive. Railroads have a wide economic moat, meaning that they are in a very strong defensive position.

If a competitor wanted to come along and create their own railroad, it would require tens of billions of dollars and many years. Because that's not likely to happen, Canadian National has the ability to focus on growth without having to worry about a younger company trying to steal its customers.

Diversified business model

There are multiple ways to diversify a railroad. The first way is to have a diverse collection of customers. The second way is to have diverse geographic locations to pick up and drop off goods. The third way is to carry a wide array of products. Canadian National has all of the above.

Part of the reason it has outperformed it has outperformed its competitors is because it doesn't rely on coal to help it generate earnings. Unlike other railroads, which might get 10-15% of their revenue from coal, Canadian National only gets 5% from coal.

Canadian National also has access to three coasts. Railroads finish the jobs that ships start. Therefore, the more bodies of water a railroad touches, the more exposure it gets. Due to the company's transcontinental nature, it has exposure to the Atlantic and Pacific oceans as well as the Gulf of Mexico.

Future growth

On the topic of the different ports, Canadian National has exposure to a few ports that are undergoing significant growth. The Port of Prince Rupert, owned by DP World of Dubai, is the fastest-growing port in the world, and Canadian National is the exclusive railway for it.

Further, the port in Mobile, Alabama is also undergoing capacity increases. Both of these ports should result in a significant increase in demand for the railroad, allowing Canadian National to charge more and carry more.

Highly efficient

The final reason investors want to own Canadian National is because it is the most efficient railway in its class. In Q2 2015, its operating ratio was 56%, which is incredibly efficient for a railroad. The reason it is able to achieve this is because it moves quickly when the company isn't bringing as much money in.

All told, the company is in a defensive position, it is well diversified, it has future growth coming, and it has highly efficient. For these four reasons, I believe investors should absolutely buy Canadian National Railway Company.

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1. Investing

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1. Editor's Choice

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Author

jaycodon

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