Investors Should Add Canadian National Railway Company for Portfolio Stability

Description

For the average investor looking to create a sound portfolio that will grow with them over the long term, I find that railroads are one of the few investments that offer tremendous portfolio stability. But not just any railroad will do. Investors need railroads that are well run, affordable at present-day prices, and able to continue to grow in the future.

The railroad that I believe investors should look at is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). It is, in my opinion, the top railroad in Canada, and it could very well be the top railroad in North America.

Here are a few reasons why you should buy Canadian National.

Wide moat

Imagine a big castle that you are trying to conquer. Now imagine that the castle has an incredibly wide, deep moat. The wider that moat is, the harder it'll be for you to conquer that castle.

Railroads have a moat just like that, making it incredibly difficult for a new company to come along and launch a competitive product. The money it would cost to buy the land, build the network of tracks, buy the trains and the cars, and then actually operate everything is incredibly high.

This means that Canadian National doesn't have much to worry about from competitors. A wide moat is fantastic when looking for portfolio stability.

Diversified and growing business

Despite what people may think, Canadian National is quite diversified. Unlike other railroads that have relied on coal for 10-15% of revenue, Canadian National only gets 5% from coal. That means that Canadian National isn't hurting along with low coal prices.

Further, Canadian National has a network of diverse customers and geographic diversity, thus giving it the ability to generate revenue all over. One of its most powerful operating advantages is the fact that it is tri-coastal. That means that it can ship goods to and from the Pacific Ocean, the Atlantic Ocean, and the Gulf of Mexico.

Even more, Canadian National is seeing growth at some of these ports. For example, the Port of Prince Rupert, owned by DP World of Dubai, is the world's fastest-growing port. Canadian National has exclusive rights to be its railroad. On top of that, the port in Mobile, Alabama is currently undergoing work to increase capacity.

Both of these will generate more revenue for Canadian National.

Highly efficient

Another reason Canadian National is a top pick is because it is incredibly efficient. According to its Q2 2015 release, its costs are only 56% of its revenue. This is called its operating ratio, and the lower it is, the better. The more money it costs a company to generate $1, the worse off it is. And Canadian National is the most efficient railroad in North America.

Part of the reason it has been able to have such a low operating ratio is because it recognizes when things are going wrong. From Q2 2015, it has cut 5% in operating expenses with some headcount reductions and hiring freezes. This ensures that the company can continue to grow even when times are rough.

If you want to own a railroad that is secure, growing, and efficient, you can't go wrong with Canadian National Railway Company.

CATEGORY

1. Investing

TICKERS GLOBAL

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