



## Does Canadian National Railway Company Belong in Your Portfolio?

### Description

There are plenty of companies that deserve prominence in investors' portfolios. In my opinion, **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is one of the most important stocks an investor should add to their portfolio. The primary reason I make this argument is because of its earnings.

According to its Q3 2015 earnings report, its net income was \$1 billion, which is 18% more than in Q3 2014. Diluted earnings per share increased by 21% to \$1.26, which is truly incredible. But all of this took place during a time when coal and oil were both suffering.

So why is Canadian National able to increase its net income by 18% and why is it one of my top picks?

### The U.S dollar vs. the loonie

The U.S. dollar is strong and the Canadian dollar is weak. That much is obvious. But there are benefits to Canadian National for a strong U.S. dollar and a weak Canadian dollar that have helped push earnings up.

Due to the fact that Canadian National has significant track in the United States, it generates significant revenue in U.S. dollars. Every U.S. dollar converted is equal to \$1.39 CAD. That's a huge conversion.

Further, the weak Canadian dollar has resulted in a strong push in the shipment of forestry and automotive goods.

### Tri-coastal business

If you look at the railroad business in North America, you can see it's split. **Canadian Pacific Railway Limited** goes from east to west in Canada, but has little exposure to the United States. Half of the U.S. railroads control the east side of the country up to Chicago. The other half of the U.S. railroads control the west side of the country. When a company wants to ship something from New York to Los Angeles, it has to change railroads in Chicago.

Canadian National has what is called a tri-coastal business. It can touch both the Pacific and Atlantic Oceans, but it also cuts through the United States down to the Gulf of Mexico. This means that it is able to generate more revenue from more places.

Further, it should see increased revenue from many of these ports due to capacity increases. The world's fastest-growing port, the Port of Prince Rupert, which is owned by DP World of Dubai, has an exclusive deal with Canadian National. And in Mobile, Alabama, Canadian National is seeing more business due to capacity increases.

### **Capital-return program**

Right now, Canadian National pays a 1.59% yield to its investors, which is modest in comparison to some of the larger dividend-paying juggernauts on the market. This comes out to \$1.25 per year for investors.

The thing is, Canadian National is going to be increasing this dividend significantly over the coming years. According to the company, its payout ratio goal is 35%, which it hopes to achieve in a few years. Right now it pays out 28%. Therefore, the dividend has room to grow.

On top of that, it has been reducing the number of outstanding shares consistently since 2000. It increased its share-buyback program by 18% from last year's program, which is oftentimes not discussed as much as the dividend. The fewer the shares, the more earnings that can be shared with investors.

All told, I believe Canadian National is one of the top stocks to own. Its earnings are growing, the company wants to pay more in dividends, and its business is secure due to its competitive advantage. I say buy.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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