4 Reasons to Put Canadian National Railway Company in Your RRSP

Description

It's RRSP season again and investors are finally getting a chance to buy some top quality stocks at discounted prices.

Here are the reasons why I think **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) is a strong RRSP pick.

1. Earnings growth

CN reported Q3 2015 net income of $1 billion, an 18% increase over the same period in 2014. Operating income jumped 16% and diluted earnings per share rose 21%.

These are pretty impressive numbers in a challenging economic environment, and they show the strength of CN's diversified revenue stream.

The stock has been under pressure because pundits are concerned the oil crash is going to hammer CN's energy-sector earnings. The company is certainly seeing a reduction in demand for drilling pipe and frac sand shipments, and crude deliveries from some conventional plays have also fallen, but the oil-by-rail market is not going to disappear.

Western Canadian producers have to get their product to higher-priced markets, and the lack of major pipeline capacity means the railways are going to continue to see strong demand.

The plunge in oil prices might be a negative for the energy sector, but it is benefiting CN's other business segments because the Canadian dollar is also on the slide.

A weak loonie is good news for forestry and automotive companies and CN is seeing strong revenue growth in those groups. The railway also originates a significant amount of earnings in the United States. With the greenback now worth CAD$1.40, the bottom line is getting a nice boost when the U.S.-based earnings are converted to Canadian dollars.

2. Efficient operations

CN is regularly praised for being North America's most efficient railway. The company reported a Q3 2015 operating ratio of 53.8%, down about five points from the third quarter of 2014. Investors want to see this number go as low as possible because it indicates the amount of revenue the company is using to operate the business.

3. A wide moat

CN is a great stock to own because it is a leader in an industry with limited competition and massive barriers to entry. In fact, the odds are pretty much nil that someone will build a competing rail line along the same routes.

Trains, planes, and trucks are the only options to move the goods needed to keep the economy rolling along, so CN simply has to compete with the other modes of transportation. The construction of intermodal hubs along its network is one way CN is holding its own against the trucking industry.

4. Dividends and share buybacks

CN generates significant free cash flow and does a good job of returning profits to investors through dividends and share buybacks.

The company hiked the dividend by 25% last year, and investors should see another juicy increase in 2016. Management plans to increase the payout ratio, so a higher percentage of the earnings should be headed into the pockets of investors in the coming years.

CN's aggressive share-repurchase program also benefits investors. Every time the company buys back and cancels shares, the remaining stockholders are left with a bigger piece of the pie.

CN spent $1.2 billion in the first nine months of 2015 to repurchase more than 16 million shares.

CATEGORY

1. Investing

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Author
aswalker