



Why Canadian National Railway Company Should Be in Every Portfolio

Description

Canadian National Railway Company's ([TSX:CNR](#))([NYSE:CNI](#)) latest results highlight why it should be a core holding in every investor's portfolio. Not only did it manage to beat analyst estimates for the fourth quarter 2015, but there are signs that its business will remain resilient to the headwinds facing the rail industry, and that it can continue to unlock value for investors over the long term.

Now what?

Regardless of the sharp collapse in commodity prices, Canada's ailing economy, and growing global economic uncertainty, Canadian National's fourth-quarter results were quite impressive. Earnings per share shot up by 15% compared with the same quarter in 2014, and this was despite falling revenues because of the impact of weak commodity prices on freight volumes.

As a result, Canadian National delivered a solid 2015 full-year results with revenue up by 4% year over year and a solid 18% jump in earnings per share.

I expect these strong results to continue with a number of short-term tailwinds aiding earnings growth.

With fuel being one of its major expenses Canadian National continues to benefit from weak crude prices. For 2015 fuel expenses were down by almost a third compared with 2014 and, with no signs of a recovery in crude, this cost will remain low for the foreseeable future.

The recent softness of the loonie has helped to boost fourth-quarter earnings by \$87 million and full-year earnings by \$314 million, and this should continue for some time yet.

You see, the loonie has gone into a tailspin because of weak oil prices and, with oil expected to remain weak for some time, it is likely that the loonie will remain low against the U.S. dollar for the foreseeable future.

There are some headwinds that will impact earnings, key among them are weaker commodity prices. These will cause a decrease in bulk freight volumes, impacting revenues. Nonetheless, Canadian National is not as exposed to the worst-affected commodity, coal, as other North American rail carriers,

which will shield it from the worst of the commodities downturn.

An impressive aspect of Canadian National's recent results was its announcement of a 20% dividend hike for its 2016 quarterly dividend. Its annual dividend has grown to \$1.50 per share and means that the company has hiked its dividend for a very impressive 21 years straight, giving its dividend an impressive compound annual growth rate of 16%.

It is also worthwhile noting that Canadian National operates North America's only transcontinental rail network. This, along with steep regulatory barriers and the tremendous amounts of capital required to enter the industry, endows it with a solid economic moat that protects it from competition.

With rail remaining as the only cost-effective means to transport bulk freight items, demand for Canadian National's services is unlikely to wane any time soon.

Accordingly, all of these characteristics virtually guarantee its long-term earnings growth, which will allow it to continue rewarding investors by regularly hiking its dividend.

So what?

Canadian National's recent results certainly highlight the resilience of its business to downturns in the economic cycle. While there are a range of headwinds facing the rail industry at this time, I expect Canadian National to continue performing strongly. For these reasons, and in conjunction with its wide economic moat and regularly growing dividend that now yields 1.7%, I believe it should be a core holding in any portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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