Canadian National Railway Company Is a Buy-and-Hold Stock

Description

When times are great, investors like to buy stocks that are more volatile because they might rise faster and provide great returns. But when times are awful, those volatile stocks plummet, leaving investors crushed.

During tough times, I like to buy stocks that are much calmer and, more importantly, not trying to rock the boat. The one company I believe is one of the best ones for buy-and-hold investors who don't want to worry is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI).

There are a few reasons why I believe this to be true.

The first has to do with a basic tenant that Warren Buffett argues. When he is looking at companies, he likes them to pass an economic moat test. If the company can maintain its advantages over any competitors–old and new–while still returning profits to its investors, it passes the economic moat test.

Railroads pass this test because it is incredibly expensive to launch a competitor; it would cost tens of billions of dollars. The reality is, it is unlikely that anyone is going to launch a competitive railroad.

The next reason I like Canadian National is because it continues to generate significant cash flow. It released its fiscal-year results in January, and they were incredible. Its adjusted net income increased to $3.58 billion, a 15.7% increase. This came on a 3.9% increase in revenue and a 6.6% increase in revenue per carload. All told, free cash flow increased by 6.9% to $2.37 billion.

It was able to increase its net income by so much because of its operating ratio. The operating ratio is the amount of money it costs to generate $1 in revenue for the company. If it is operating at 85%, its costs are significant. If it is operating at 15%, its costs are low.

Canadian National is the most efficient railroad on the market with an operation ratio of 58.2%. I expect that this will get even better based on the news that the company is going to invest nearly $1.5 billion on track infrastructure, plus another $1.4 billion to improve efficiency.

But one of the most important reasons why I like Canadian National is because of its network. Unlike other railroads, Canadian National is a tri-coastal railroad. That means that it can send goods from the Pacific Ocean to the Atlantic Ocean to the Gulf of Mexico. This is one of the contributing factors to its efficiency because it doesn't have to do many transfers in Chicago.

All told, Canadian National is a solid buy-and-hold stock. And with prices depressed due to the markets, it is a great time to buy. You'll get a comfortable 1.96% yield with the stock, which is a $0.38 per-share dividend. While it might sound low, the company has increased its dividend every single year since 1996. It just hiked it 20% in January, so that trend will continue.

Buying this stock is a smart move, one that will provide strong returns in the years and decades to come.

CATEGORY

1. Investing

TICKERS GLOBAL

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Date
2025/08/24
Date Created
2016/02/12
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