3 Reasons to Consider Canadian National Railway Company

Description

Investors who have held **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) for years are in a very solid position. The value of the stock has appreciated by many multiples. The stock has even increased an additional 15% since January.

While the stock is a bit on the expensive side, I am not comfortable telling people to avoid this stock. I believe that this stock should be a core holding for investors. Here are a few reasons.

Strong earnings

Time and time again, Canadian National finds a way to really excel at delivering earnings. The company announced that its net income was $941 million for Q4 2015, which was up 11% year over year. This resulted in a 15% increase for diluted earnings per share.

What's significant–and one of the many reasons why I like Canadian National–is that these earnings came on the back of a 1% drop in revenue year over year. In other words, despite making 1% less in revenue from Q4 2014, the company was still able to increase net income by 11%.

There are two reasons for this. The first is that it is the most efficient railroad on the market. In Q4 2014, its operating ratio was 60.7%. A year later the company decreased that to 57.4%. The lower this number, the better, because it reduces how much money the company must spend to earn a dollar of revenue.

The other way that it was able to generate such significant earnings is because the U.S. dollar was so much stronger than the Canadian dollar. Canadian National has a lot of business south of the border, so when it brought its revenue back to Canada, its earnings were greater.

Geographic moat

This leads to the second reason that I really like this company: it has an incredibly strong geographic moat. If you look at all of the American railroads, they only go halfway across the country. If a railroad originates in New York, it has to unload the cargo in Chicago and then transfer it to a train that can go the rest of the way to the west coast.

Canadian National, on the other hand, hits three coasts. It can go all the way from the Pacific to the Atlantic and then south to the Gulf of Mexico. Because the company does not need to unload its goods, it is able to increase the speed at which it can transport, which helps with costs.

Return of money to investors

The final reason why I like Canadian National is because it rewards its investors handsomely. While the 1.87% yield might not seem lucrative, the company has been increasing its yield aggressively for decades.

The $0.38-per-share dividend has increased by at least 17% every year since 1996. This trend continues with the dividend being hiked by 20% in January.

All told, the company does a very good job of keeping its costs down, it has built a strong geographic moat, and it rewards its investors with a consistent and growing dividend. While I don’t expect this stock to ever double like some other stocks, you won’t feel bad owning this safe stock.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2016/03/25
Author
jaycodon