Why Canadian National Railway Company Is Good for Your Portfolio

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is the largest railroad operator in North America. It has a network of over 32,000 km of track and employs 24,000 people. The company is up by 11% in the past three months, and the current share price of just over $80 is nearing the 52-week high of $84.92.

Let’s take a look at why Canadian National should be a part of your portfolio.

Impressive growth and results in a challenging environment

Last year was a very tumultuous time for a lot of industries–railroads included. Plummeting fuel prices and lower demand for commodities such as coal caused frustration among railroad operators, which resulted in falling revenues.

Canadian National was very much the exception to this. While the company did have a fair number of challenges to overcome, investors and analysts alike were more than impressed when the company posted fourth-quarter and annual results.

The company managed to post a record $4.44 diluted earnings per share for the year, representing an impressive 18% increase. Net income for the quarter came in at $941 million, which was an 11% increase over the same quarter last year.

Interestingly enough, these numbers do not reflect that the company actually had lower sales when compared with the same quarter last year. Year-over-year revenue came in 1% lower as a result of weak demand for commodities, which leads to the second reason why Canadian National is a great option.

Canadian National is a diversified, efficient railroad hitting three coastlines

Canadian National has something its competitors don't: access to three ports. While most other competitors can't even claim to be a fully national railroad that spans the entire country, Canadian National can haul freight from the Pacific to the Atlantic or Gulf Coast.

Having a coast-to-coast network is only good if you can be efficient in operations, and Canadian National is widely regarded as the best in the business. Last year Canadian National had an operating ratio of 60.7%. This year, the company managed to get this figure down to 57.4%

By comparison, many of Canadian National's competitors have an operating ratio that is in the mid-60s or higher.

Canadian National is also well diversified in terms of freight. Where revenues dropped last year as a result of commodity prices and demand plummeting–specifically coal, grain, and metals–this impact was minimized because the company diversifies freight loads, offsetting the decreased demand for commodities with increased shipments for the automotive sector.

Continuing to improve

One final, impressive point about Canadian National is that the company continues to press forward with efficiency improvements.

The company has $1.5 billion set aside for track infrastructure, an additional $400 million for new technology installations along the U.S. routes, and another $400 million slated for service and productivity improvements. Canadian National has even allocated $600 million to put towards acquiring 90 new locomotives.

There's no doubt that Canadian National is doing something right: the company is posting impressive results, raising the dividend, and putting cash aside to expand and become more efficient.

In my opinion, Canadian National represents a great opportunity for those investors seeking long-term growth.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/01
Date Created

2016/04/12
Author
dafxentiou