Buy Canadian National Railway Company While the Price Is Down

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is the largest railroad in North America with a massive network of over 32,000 km of track that reaches three coast lines. Recently, the stock has not fared as well as it has over the past few years, representing an opportunity for investors to pick up some stock at a discounted price.

Here's a look at Canadian National and why, despite the drop in price, the company remains a great investment option for any investor.

How's Canadian National doing?

Canadian National is currently trading at $77, which is shy of the 52-week max of $83.81 that it was flirting with just a few weeks ago. In the past month the stock has dropped approximately 3.5%, but over the long term the price still shows a healthy increase of over 34% in the past two years.

Canadian National pays out a quarterly dividend of $0.38 per share, giving the company a dividend of 1.93%. While this payout is not the best on the market, Canadian National has raised the dividend consistently over the past few years and is likely to continue increasing it thanks in part to the company's wide moat.

Canadian National's first-quarter results are largely to blame for the slump in prices. While the company did manage to provide both income and EPS numbers that rose by double digits over the prior year, the company's outlook for the upcoming year left a lot to be desired.

A weakness in certain freight commodities–specifically coal, fertilizer and oil–forced railroads to lower expectations this year. Canadian National does not expect any significant EPS growth this year, which led to the drop in price.

That's not to say that Canadian National is not a great investment. The company still takes the crown in terms of maintaining the best operating ratio in the business and still has a number of advantages over competitors.

Canadian National has a moat

One of the most impressive features of any railroad is the vast amount of infrastructure required that spans thousands of kilometres.

For a new competitor to emerge in the railroad industry at this point would require an investment of tens of billions of dollars and would still need the better part of a decade or more to come close to the level of infrastructure that Canadian National and others currently have.

Even if existing competitors were to attempt to merge to surpass the size and reach of Canadian National, it would likely be struck down by regulatory and government bodies on both sides of the border; for example, take **Canadian Pacific Railway Limited's** multiple failed attempts to acquire **Norfolk Southern Corp.**

This puts Canadian National, which is the largest of the North American railroads, at a significant advantage, not only because of the vast network the company has, but also because of the railroad's access to three ports on the continent–something that few others, if any, can match.

In my opinion, Canadian National represents a great opportunity for investors. The company will continue to haul freight further and more efficiently than competitors. Likewise, the company will continue to become more efficient and grow, albeit slower than many expected. And lastly, the company will continue to pay out a great dividend.

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Date
2025/08/01
Date Created
2016/05/11
Author
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