Is Canadian National Railway Company the Best Railroad to Invest in?

Description

Railroad companies are a unique type of investment. Railroads have far-reaching defensive moats that prevent new companies from popping up. They also have strict regulations with respect to mergers that ensure no single railroad becomes too big at the expense of any of the other existing railroads.

One of the biggest railroads in Canada is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). Here's a look at how Canadian National is doing and why you should invest in the company.

How's Canadian National doing?

Canadian National currently trades at just over $75, down 2.6% year-to-date. Over the course of a full 12-month period, the stock is up by 3%; extending this period out over the past two years shows an increase of 28%.

Canadian National pays out a quarterly dividend of $0.38 per share, giving the stock a yield of 1.99%. The dividend has increased consecutively over the past few years, and that trend is likely to continue for the foreseeable future.

In the most recent quarter the company posted net income of $792 million, a solid 13% increase over the same quarter last year. Earnings per share increased by 16% to $1.00 over the same time period. Operating income for the quarter came in at $1,217 million, an increase of 14% over the same quarter last year.

Revenues for the quarter came in lower by 4% to $2.964 billion. The decrease was largely due to the drop in demand for energy-related commodities, but this was offset by both a decrease in operating expenses by 14% and a nearly 7% improvement of the operating ratio.

Canadian National Railway is both big and efficient

Canadian National has a massive 32,000 km network that spans from coast to coast in Canada as well as through the U.S. to the south coast. The company has over 20 intermodal terminals scattered around the network that allow for cargo to be transported onward to subsequent destinations.

One of the most impressive aspects of Canadian National is how it has been able to reduce operating expenses over the past few quarters. The drop in price of crude as well as a drop in demand for certain commodities over the past few quarters has had an impact on the railroads that haul those types of freight, forcing them to look for increased savings.

Much like the metals industry, railroads have taken the current market pressure as an opportunity to look for efficiencies and reduce costs. Canadian National's drop in operating expenses in the most recent quarter bettered rivals by nearly 5%. These savings are a direct boost to margins for the company, which can only increase once market demand picks up again.

In addition to becoming more efficient, the railroad has a number of lucrative revenue-generating opportunities. Canadian National has an exclusivity agreement in place with the Port of Prince Rupert, which also happens to be world's fastest-growing port and the primary port for freight to access Asian markets. The success of that agreement is being used as a template for upgrades to the port of Mobile, Alabama–another port that Canadian National has access to.

In my opinion, Canadian National is one of the better growth options available on the market. The company continues to report favourable results, it has a healthy dividend, it has diversified cargo loads, and it continues to improve efficiency across the board.

CATEGORY

1. Investing

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Date
2025/08/25
Date Created
2016/06/13
Author
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