



3 Reasons to Buy Canadian National Railway Company

Description

Some analysts are voicing concerns that the best days are behind **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). There are fears that margins and profitability are flattening as the railway market matures and growth opportunities decline.

However, while there may be mounting pressure on profitability, it's short term in nature. Canadian National's earnings will bounce back over the long term due to a range of catalysts that ensure its revenues will continue to grow.

Now what?

Firstly, Canadian National has an exceptionally wide economic moat that is the envy of many other companies across North America.

The rail industry is a key part of Canada's transportation infrastructure. Canadian National not only operates Canada's largest transcontinental railway, which is of such breadth that it is virtually impossible to replicate, but there are also steep barriers to entry. These include the considerable amount of capital required to commence operations in the industry and significant regulations.

As a result of these characteristics, Canada's rail industry is oligopolistic in nature with Canadian National and **Canadian Pacific Railway Limited** operating more than three-quarters of the industry's tracks and hauling over 75% of the overall tonnage carried. Canadian National, to an extent, is able to operate as a price maker rather than a price taker, further enhancing its growth prospects.

These attributes not only protect Canadian National from competition, but virtually ensure the growth of its long-term earnings.

Secondly, rail is the only cost-effective means of transporting bulk freight across Canada and North America.

The vast distances in North America coupled with a rail company's ability to move vast tonnages of freight with relatively low energy consumption make it a far more efficient and environmentally friendly

means of transportation than by road.

The efficiency of rail continues to improve. Rail companies, including Canadian National, are focused on cutting costs. For the first quarter 2016, Canadian National's operating expenses fell by an impressive 14% compared with the same period in 2015, and there are signs this trend will continue with the implementation of further cost-management initiatives.

For these reasons, rail will remain the dominant form of bulk freight transport in Canada for decades to come.

Finally, Canadian National has a well-balanced and diversified business mix, which helps to protect its revenues.

The key revenue earner for Canadian National is its intermodal haulage business, which is the transportation of primarily retail goods in specialized containers that can be moved by ship, train, or truck. This business accounted for 23% of its revenue for the first quarter and is an important source of growth.

So what?

Canadian National is certainly not a stock that will "shoot out the lights," but it has been a solid performer since listing in 1995. Impressively, since then it has hiked its dividend every year to now pay an attractive yield of almost 2%, which will reward investors as they wait for the economy to improve and Canadian National's stock price to appreciate further.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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