



Does Canadian National Railway Company Fit in Your Portfolio?

Description

Railroads can be some of the best assets to own and are also a great barometer of an economy. In my opinion, **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is one of the best railroads to own in both Canada and the United States.

If we look at U.S. railroads, they are broken up in eastern and western networks. Trains head west, but stop at Chicago and then have to switch cargo to a western-network train. For Canadian National Railway, this isn't a problem. Not only can it go from eastern Canada to western Canada, but it also can go all the way south to the Gulf of Mexico. This makes it the only transcontinental railroad. This is important because the less time the railroad spends having to unload and reload, the more money the company can make.

Canadian National Railway continues to invest heavily in improving its operating ratio—this is how much it costs the company to make \$1 in revenue; therefore, the lower this number, the better. In the second quarter, Canadian National Railway achieved a 54.5% ratio, which is a record for the company, but it's also the best of all the Class I railroads. The low operating ratio explains why Canadian National Railway's net income was only down by 3% year over year despite the fact revenue was down from \$3.125 billion to \$2.842 billion.

Canadian National Railway's gross tonne miles per train mile (the amount it carried plus the distance it traveled) increased by 7%. Its terminal dwell dropped to 13.6 hours from 14.6. Remember when I talked about it not needing to unload and reload? The fewer hours this takes, the more time is spent moving cargo to its destination. Distance traveled per day increased to 239 miles from 227, and the train velocity increased to 27.6 mph from 26.2.

Faster-moving trains are carrying more goods and unloading them more efficiently. This is a big reason Canadian National can earn as much as it does.

While it will likely be more difficult to continue becoming more efficient, it's clear that Canadian National Railway is the best in the business. And the good news for investors is that management isn't just focusing on efficiency.

In October 2015 management announced that it would be buying upwards of 33 million shares from investors, making every remaining investor a bigger owner of the business. In July it announced that it would be buying these shares under three share-repurchase programs.

The company is also continuing to boost the dividend. Presently, it pays a 1.76% yield, but this is good for \$0.38 per quarter. In January 2015 it increased the dividend by 25%. Last January, it increased it again by 20%. And with cash flow higher year over year, there's no telling how much higher this yield can go.

All in all, I very much believe Canadian National Railway belongs in your portfolio. It's highly efficient, it kicks off lucrative cash, and, unless the economy completely tanks, it has a long-term future. It's expensive, but there are multiple other railroads that cost even more.

CATEGORY

1. Investing

TICKERS GLOBAL

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