Why Canadian National Railway Company Is Great for Your Portfolio

Description

Railway companies are some of the best investment options that you can add to your portfolio, particularly over the long term. **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) is one of the largest railway operators in North America and the largest in Canada with an impressive network spanning over 32,000 kilometres and three coastlines on the continent.

If you haven't already added Canadian National to your portfolio, you really should consider it, and here are a couple of reasons to help sway you.

Canadian National has the largest defensive moat–ever

Historically, railroads played a very important part in the expansion and settlement of both Canada and the U.S. Both countries poured a countless amount of capital and resources into constructing rail lines, which took years to complete.

Today, that track network is bigger and virtually impossible to replicate. For a new competitor to even consider emerging to rival Canadian National would take tens, if not hundreds, of billions in invested capital, a decade or more in infrastructure development, and thousands of employees across the country working in everything from planning and logistics to construction.

In other words, there's unlikely to be any new national competitor anytime soon to rival Canadian National.

The possibility of a new competitor emerging as the result of a merger is also equally as unlikely. After a series of mega mergers between railroads back in the 90s, the Surface Transportation Board (STB) adopted stricter criteria for railway mergers, which effectively muted the railway-merger argument.

Canadian National's access to three coasts and 20 intermodal terminals across the continent not only solidify that moat, but put it far ahead of most other competitors. In fact, the placement of those terminals helps minimize the amount of time needed for to get cargo in and out of major areas without the need to change trains.

Canadian National can provide reliable income and growth

Over the past three years Canadian National's stock has appreciated by over 45% and currently sits just shy of the 52-week high of $88.50. Canadian National also pays out a quarterly dividend in the amount of $0.375 per share, which provides a respectable 1.7% yield at the current share price.

While dividend growth isn't the primary reason to invest in Canadian National, the income is reliable, and the railway has an established record of increasing the dividend with the most recent increase coming earlier this year.

In the most recent quarter Canadian National continued a trend of improving the operating ratio; it's down to a record 54.5%. The operating ratio (where a lower number is representative of a healthier bottom line) is a measure of what the costs are for the company to bring in $1 in revenue. By way of comparison, Canadian National's competitors have ratios of 60% or higher.

Canadian National is also in the midst of a share-buyback program; so far the railroad has purchased over 33 million shares back from investors, which in turn boosts the price of the company as a whole.

In my opinion, Canadian National represents a great opportunity for investors looking for both growth and dividend income. The company has a steady source of revenue from a very efficient and far-reaching network which fuels a significant part of the economy, a rising dividend, and a commitment to increasing shareholder value.

CATEGORY

1. Investing

TICKERS GLOBAL

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