Why Bill Gates Loves Canadian National Railway Company

Description

It's no secret that Bill Gates loves **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI), as he owns over 14% of outstanding shares. Bill Gates is also a huge follower of Warren Buffett, who is known for buying forever companies with durable competitive advantages at discounts to intrinsic value. Both billionaires love the rails, and I believe now may be a great time to get into the stock before it takes off.

Impressive top- and bottom-line beat for the Q3 2016 earnings report

CN Rail reported better than expected earnings of $1.25, which beat analyst expectations by $0.34. Revenue was also better than expected at $3.01 billion, beating analyst expectations by a whopping $660 million. CN Rail responded by remaining relatively flat throughout the trading day, but I believe the quarter was one to be proud of, and it could trigger a sustained rally to new highs for CN Rail.

Rail traffic could start picking up as we head into 2017

There's no question that the year has been rough for the Canadian economy and the rails, but September saw improved rail traffic, and I believe this could be the start of a rally, as commodities start to rebound from their lows and the rails start experiencing improved margins, which will positively impact earnings seasons going forward. I believe the dark days are over and investors should buy CN Rail before this forever stock really takes off.

In addition to the trend of increasing traffic volumes, CN Rail has a very impressive track record of operational efficiency. The last 12 months' return on equity (ROE) was an attractive 24%, which is very high despite the rout in commodities.

CN Rail also has an impressive return on invested capital (ROIC) of 14.4% with an operating margin of 42% over the last four quarters.

These are the metrics that Warren Buffett and his good friend Bill Gates look for in a business. Although long-term revenue growth over the last five years was a meagre 2.8%, there very well could be a nice rally in store for the latter part of 2016 as well as into 2017. Commodities could turn from a headwind into a tailwind as the Canadian economy finally picks up from its technical recession that was experienced last year.

What about value?

CN Rail is priced at a premium compared to its counterparts in the U.S., but I believe this is warranted thanks to its very impressive network, which spans across both Canadian coasts and goes down into the Gulf coast. The railroad also has some of the best ROE and ROIC numbers over the last few years and is one of the best dividend-growth stocks in Canada.

CN Rail currently trades at a hefty 19.3 P/E with a 4.6 P/B, both of which are more expensive that its five-year historical average values of 17.7 and 3.8, respectively. Although these valuation metrics may seem overvalued at current levels, I believe the P/E will drop significantly due to improved earnings over the next few quarters and the stock will respond by soaring.

Long-term investors should highly consider picking up shares in CN Rail and sleep comfortably knowing that Bill Gates is in their corner.

CATEGORY

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2. Investing

TICKERS GLOBAL

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