



Is Canadian National Railway Company a Top Pick Today?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) has delivered stellar returns to investors over the past two decades.

Let's take a look at the railway giant to see if it deserves to be in your portfolio right now.

Wide moat

A sustainable competitive edge is one thing top investors always search for in buy-and-hold investments, and CN certainly fits the bill. The company is the only railway business that can offer its customers access to three coasts, and that situation is unlikely to change.

Why?

The odds of a competitor building new tracks along the same routes are pretty much nil, and merger attempts in the railway industry tend to run into significant regulatory roadblocks.

Efficient operations

CN still has to compete with trucking companies and other railways on some routes, so management works hard to ensure the business run as efficiently as possible.

The company reported an operating ratio of 55.9% for 2016 compared to 58.2% in the previous year. A lower number is better, as the metric indicates the railway's operating expenses as a percentage of revenue.

In the rail business, an operating ratio below 80% is generally considered good, so CN is running a pretty tight ship.

Diversified revenue stream

CN is literally the backbone of the Canadian and U.S. economies, transporting products from a wide variety of segments, including automotive, forestry, minerals, grains, petroleum, chemicals, and

intermodal.

When one segment has a rough quarter, another usually picks up the slack.

A significant part of the revenue comes from operations in the United States, so earnings get a nice boost when the American dollar strengthens against the loonie.

Dividend growth

CN generates carloads of free cash flow and has a strong history of sharing it with investors in the form of buybacks and dividend increases.

The company recently raised the dividend payout by 10% and has a compound annual dividend growth rate of more than 16% over the past two decades.

Should you buy?

CN is a market leader with top-quality management and impressive free cash flow. If you are looking for a stock to simply buy and stash away in your portfolio for decades, CN has proven to be one of the best.

The shares are currently trading near all-time highs, which might keep some investors on the sidelines.

Waiting to buy CN on a dip often results in missed upside, so it might be best to just add a bit to your holdings on a regular basis when you have some free cash to invest.

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1. Investing

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1. Editor's Choice

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