Top 3 Reasons to Invest in Canadian National Railway Company

Description

Railroad companies are unique investments. They’re overlooked by many as being dated relics from a time long past, and few investors realize the significance that railroads still play in a modern economy.

Among the many railroad companies to invest in, **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) is often mentioned as one of the better investment options, and for good reason too.

Here are three reasons to consider adding Canadian National to your portfolio.

1. Canadian National has a massive moat

Railways have incredible moats. From a competitive standpoint, the chances of a new railroad emerging and challenging the supremacy of Canadian National is simply beyond comprehension. The sheer amount of resources and capital required for that competitor would cost upwards of tens of billions and require more than a decade in construction.

And a merger also seems to have little, if any, chance of unseating Canadian National. Strict regulations were put in place by the Surface Transportation Board after a series of mergers back in the 90s; these regulations make it incredibly difficult for large railroads to merge. This was evident last fall as a competitor of Canadian National contemplated a merger with another Class 1 railroad, only to be shot down by regulatory bodies.

Finally, Canadian National also has an additional defensive aspect that no other railroad on the continent has — access to three ports. Canadian National also has exclusive access to the Port of Prince Rupert, which is the fastest-growing port in the world.

2. Canadian National is essential to the whole economy

A fully loaded freight train is an iconic sight to behold. What is even more impressive is the array of products that are transferred to points around the continent. Everything from coal to wheat is hauled, and this is yet another reason to consider Canadian National.

In short, railroads are key to keeping the North American economy firing on all cylinders. Canadian National's diversified mix of freight helps ensure that when demand in one sector of the economy declines, another picks up.

Even better, Canadian National not only hauls that freight, but it does so more efficiently than anyone else in the industry. Canadian National's operating ratio, which is a measure of operating expenses as a percentage of revenue, hit new lows in the 2016 fiscal year, reaching 55.9%. To put just how efficient Canadian National is into perspective, most competitors have operating ratios that are closer to 80%.

3. Canadian National can provide incredible growth and income

Canadian National offers investors a quarterly dividend of $0.4125 per share, which results in a respectable 1.68% yield at the current stock price. Canadian National has also raised the dividend over the past few years and is likely to continue to do so.

While this may not be enough of a return to warrant an investment in the stock alone, Canadian National's stock growth over the past few years does. In the past three years, the stock has soared 57%, and in the past year, the stock has shot up by over 20%.

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