Why All Portfolios Need Canadian National Railway Company

Description

Finding the right stock for your portfolio can be a challenging exercise. With no shortage of options on the market, and investment goals that can vary significantly, new investors are often overwhelmed.

Fortunately, there are some truly great investment opportunities that should keep potential investors more than pleased for years to come.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)should be a part of every portfolio.

Canadian National is one of the largest and most efficient railroads on the continent. It has a massive network that reaches three coastlines — something no other railroad on the continent can offer. This is the first of several competitive advantages that Canadian National has.

Railroads are efficient and well diversified

Few people realize the importance that railroads play on the overall health of the economy. Railroads haul massive amounts of freight from one end of the continent to the other, connecting ports and factories to terminals located near every single metro area on the continent. Railroads are also the most efficient means of transporting freight, accounting for as much as 40% of all freight in the U.S.

That freight can be anything from automotive parts and crude oil to wheat and manufactured goods. Because the freight is so well diversified, a slowdown in one type of freight can be offset by growth in any other sector.

Efficiency is a key metric of railroads, and Canadian National stands at the forefront of the railroad industry with the most efficient operating ratio among all Class 1 railroads. At the end of fiscal 2016, that ratio stood at 55.9%. By way of comparison, some of Canadian National's competitor held operating ratios of more than 70%.

Railroads and the defensive moat

There are few companies on the market that can boast a defensive moat the size of Canadian

National's moat. Remember the massive network I mentioned earlier that reaches three coastlines? For a competitor to even consider challenging the supremacy of Canadian National, it would require tens of billions in investment and decades of construction.

The prospects for existing competitors to challenge Canadian National are equally as slim thanks to strict regulations on the merger of railroads put in place by the Surface Transportation Board after the last series of mergers took place over two decades ago.

By way of example, an attempt made last year to merge two Class 1 railroads was shot down by multiple regulatory bodies and businesses.

Results speak volumes

Canadian National reported first-quarter results for fiscal 2017 last month, and they highlighted why the railroad should be a core holding in nearly every portfolio.

Net income for the quarter came in at $884 million, registering a 12% increase over the same quarter last year. Diluted earnings per share saw an increase of 16% in the quarter, coming in at $1.16 per share when compared to the same quarter last year.

Revenue saw an increase of 8% in the quarter, ending at $3.2 billion. Carloadings in the quarter also came in stronger, registering a 9% increase. Canadian National's operating ratio edged up slightly in the quarter to 59.4%.

Canadian National provided updated guidance for the rest of the fiscal year thanks in part to the positive results from Q1. The new guidance issued by Canadian National calls for adjusted diluted EPS to fall in within $4.95-5.10 per share.

In my opinion, Canadian National remains a great investment opportunity for both income- and growth-seeking investors.

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Author

dafxentiou