



## How Canadian National Railway Company Continues to Evolve

### Description

Railroad investment are, contrary to public belief, some of the best investments that you can add to your portfolio. Chief among those railroad investments to consider is **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), which is one of the largest and most efficient railroads on the continent.

### Why invest in railroads at all?

Railroads are stereotypically viewed as investments left over from the last century and out of touch with the needs of the modern economy. When a large freight train passes in the distance, most of us will be awestruck by the sheer power required by the locomotive to haul that many cars across thousands of kilometres, but few people will look deeper and realize the volume of goods being hauled and the impact that has on the economy.

That impact is huge, with as much as 40% of all freight in the U.S. moved by rail. Canadian National remains one of the best investment opportunities to consider for a variety of reasons.

### A massive defensive moat

One of the many advantages of Canadian National has to do with the massive network that the company boasts. It has access to three separate coastlines on the continent — something no other railroad can offer.

That massive network is used to haul different types of freight from one end of the continent to other, connecting factories and warehouses to terminals that are strategically located near every single major metro area right across the continent.

The freight that Canadian National hauls, which can be anything from automotive components to wheat, is another critical reason why railroads are great investments. Canadian National has a highly diversified mix of freight, which ensures that a slowdown in one type of freight can be compensated with growth in another area.

## Efficiency and technological advancements

Hauling massive amounts of freight across thousands of kilometres requires railroads to be very efficient. Canadian National is the industry leader in terms of efficiency, maintaining the lowest (best) operating ratio among all class one railroads. As of the close of fiscal 2016, Canadian National's operating ratio came in at 55.9%, whereas many of Canadian National's competitors had a ratio of 70% or higher.

The efficiency of operations alone is not enough to keep Canadian National on top. Rail is currently the most efficient means of freight transport, but advancements in autonomous driving and the potential ramifications this could have on the rail industry have caused Canadian National to go on the offensive.

Canadian National announced an investment of \$500 million over the next five years to improve operations and make Canadian National even more efficient. Beyond that investment, Canadian National is looking at a \$1.2 billion investment by 2020 for a positive control system to both monitor and control train movement. While we may be years out from an autonomous train, these are the first steps towards the evolution of freight and a welcome change from Canadian National.

In my opinion, Canadian National remains a great holding for nearly any portfolio.

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1. Editor's Choice

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### Date

2025/07/28

### Date Created

2017/06/27

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