



Canadian National Railway Company: Cancelled Energy East Pipeline an Opportunity for the Rails

Description

Shareholders of rail stocks such as **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) should be rejoicing after **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) announced its decision to cancel its Energy East pipeline. The crude oil will still be moved, but instead of via pipeline, it'll be via rail. Crude by rail isn't the cheapest or safest method of transporting crude over long distances, but over the short to medium term, it's very likely that the rails may experience an increase in crude carloads.

Many pundits believe that shipping crude by rail is risky and could pose dangers to the areas surrounding rail tracks; it could be catastrophic if the derailed train happened to be transporting crude oil. However, CN Rail has invested a considerable amount of cash in its rail network to ensure safety and minimize derailments.

I believe CN Rail is well positioned to take advantage of the opportunity to transport more crude, and as its procedures become more safe and reliable, I believe crude by rail may not be such a risky and dangerous method of transportation as it once was. Sure, accidents happen, but the management team at CN Rail has taken steps to reduce the chances of such incidents occurring.

There's a lot more crude being produced, and it's expected that a bottle-neck will form, since there's simply not enough pipeline capacity to transport at the rate that it's being produced. Increased rail shipments are inevitable, and I think CN Rail is very well positioned to be a top mover of this commodity, thanks in part to its remarkable efficiency and continuously improving track record of safety.

Some analysts believe there will be a huge spike in crude-by-rail exports going forward, as more oil sands operators start to ramp up their production. Analysts at Tudor, Pickering, Holt and Co. think estimate that crude-by-rail volumes will increase to as high as 550,000 bpd in 2019 before new pipelines become operational.

Bottom line

The pipelines still face many challenges and potential roadblocks, so don't rule out more project cancellations like with Energy East. Crude-by-rail volumes are going up over the medium term and potentially over the long term if crude production continues to rise relative to pipeline capacity.

CN Rail is very well positioned to be one of the most promising candidates for transporting crude. It's an incredibly efficient operator that's been pushing for safety — a must when moving a product as risky as crude.

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