RRSP Investors: 5 Reasons to Own Canadian National Railway Company

Description

Canadian savers are searching for top-quality stocks to hold inside their RRSP portfolios.

Let's take a look at some of the reasons **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) deserves to be on your radar.

Strong earnings

CN reported adjusted Q3 2017 net income of $989 million, which was slightly higher than the results for the same period last year. The company confirmed its previous 2017 earnings per share (EPS) guidance of $4.95-5.10.

Free cash flow for the quarter was $662 million, up from $574 million in Q3 2016. For the first nine months of 2017, free cash flow came in at $2.321 billion, compared to $1.743 billion last year.

Overall, it was a solid quarter for the railway, and full-year 2017 is looking good.

Diversified business units

CN is literally the backbone of the Canadian and U.S. economies, with routes running right across Canada and down through the heart of the United States.

The company carries everything from coal and cars to lumber, oil, grains, and consumer goods.

When one segment hits a rough patch, the others normally pick up the slack. For example, revenue from forestry products slipped 2% in Q3 compared to the third quarter last year, but the minerals and metals segment saw revenue jump 31%.

CN gets a significant chunk of its revenue from the U.S., which provides a nice hedge against disruptions in Canada and can boost earnings when the U.S. dollar rises against the loonie.

Wide moat

CN is the only rail operator in North America with tracks connecting three coasts. This is an important competitive advantage that is unlikely to change.

Why?

Attempts to merge railways tend to run into regulatory roadblocks, and the odds of new tracks being built along the same routes are pretty slim.

Efficient operations

CN still has to compete with trucking companies and other railways on some routes, so management works hard to ensure the business is running efficiently. CN regularly reports an industry-leading operating ratio and is widely viewed as the best-run company in the sector.

Dividend growth

CN is a very profitable business, and management does a good job of sharing the spoils with investors through dividend increases.

In fact, CN’s compound annual dividend-growth rate over the past 20 years is about 16%, which is a big reason long-term owners of the stock who invest the dividends in new shares have enjoyed impressive returns on their investments.

A $10,000 purchase of CN’s shares two decades ago would be worth more than $200,000 today with the dividends reinvested.

Should you buy?

There is no guarantee CN will generate the same results over the next 20 years, but the company should continue to be a reliable buy-and-hold pick for RRSP investors.

If you have some cash sitting on the sidelines, CN deserves to be on your radar.

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