Canadian National Railway Company: Is Today an Opportune Time to Buy the Dip?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is a wonderful business with one of the widest moats out there. For investors looking for a low-risk way to beat the markets over the long term, all you need to do is buy CN Rail on the dips, which has been a tried-and-true way to generate wealth for many smart investors, including Bill Gates — the company's largest shareholder through his investment firm Cascade Investment.

Shares of CN Rail are currently down ~7% from all-time highs, and if you're looking for a safe dividend-growth king for the core of your portfolio, then now may be the time to back up the truck before longer-term tailwinds begin to mount. Sure, shares still aren't cheap after the slight pullback, but I believe the premium valuation is worth every penny, since management has shown it can drive its operating ratio, operating expenses as a percentage of revenue, down to much lower levels than any of its North American peers.

A nice hedge against a falling loonie

A huge chunk of CN Rail's revenue comes from the U.S. with ~17% of revenues tied to U.S. domestic traffic last year. That means Canadians looking to protect themselves from a falling loonie relative to the greenback will do very well with shares of CN Rail.

Recent hiring spree a sign of good things to come

CN Rail announced its plans to hire ~3,500 workers this year with another 2,000 expected hires to be made next year. That's quite the hiring spree!

While such a huge increase to the workforce will increase operating expenses and potentially causethe operating ratio to increase in upcoming quarters, I'm confident that a much higher bump in revenue relative to incremental increases in operational expenses will happen. Given management's incredible track record of efficiency, the 5,500 hires over the next two years may be on the conservative side, even though it may not seem like it!

"Much of the hiring focuses on western Canada, where business is brisk hauling bumper crops and intermodal containers to port," said Doug Ryhorchuk, CN Rail vice president of operations.

Bottom line

There are times when you should pay up for quality, and when it comes to the rail industry, I believe CN Rail is worth paying up for. As Canada's most efficient railway, I see more improvements in safety and efficiency that will result in savings, which will be returned to shareholders through an upped dividend.

CN Rail has rewarded shareholders with a compound annual dividend-growth rate of ~16% over the last two decades, and going forward, more of the same can be expected for those with the patience to hang on to shares through thick and thin.

Fellow Fool.ca contributor David Jagielski thinks that a strong Q4 2017 could be in the cards, which would send shares of CN Rail back above all-time highs. I think he's on to something, so shareholders would be wise to back up the truck today before the company reaps the rewards from skyrocketing shipments.

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Date
2025/08/26
Date Created

2017/12/02
Author
joefrenette