



This Incredible New Tech Could Allow Canadian National Railway Company to Steal Glory From the Pipelines

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) is a wonderful business to own now and for decades. It's a dividend-growth king with one of the widest moats out there, and after pulling back by a slight amount in the latter part of 2017, now may be an opportune time to pick up shares. Not only is CN Rail slated to enjoy tailwinds in the new year in the form of upped volumes, but the rail operator is also likely to see crude-by-rail shipments rise in the years ahead as the bottleneck continues for oil pipelines.

Could we be entering the “crude-by-rail 2.0” era?

A report called “Pipeline bottlenecks coming; time for crude-by-rail 2.0?” called for a 50% and 30% in year-over-year growth for 2018 and 2019, respectively. As more pipelines go online in 2019, this crude bottleneck will gradually begin to slow down.

There's no doubt that 2018 could be a year that CN Rail takes off; the company has been doing a [tonne of hiring](#) of late in preparation for a volume surge. As North America's most efficient railroad, I do not believe the hiring surge will cause a substantial dip in the company's operating ratio, which has improved by leaps and bounds over the years. Although 5,500 hires may seem like a steep increase in expenses, I think the magnitude of revenues will be far greater.

A crude opportunity on the horizon

There's a huge bottleneck in the transportation of heavy Canadian crude, and this is not great news for its prices relative to WTI. Crude by rail is going to be necessary over the next few years as the bottleneck dies down, but here's why I think crude by rail may be sticking around, well after the pipeline bottleneck has died down.

Crude by rail has been known as a risky means of transport versus pipelines; however, new tech could allow crude by rail to actually be the more attractive option of transporting heavy crude from Alberta's oil patch.

What exactly is this new tech?

CN Rail and InnoTech have developed a new technology which allows for bitumen to be transformed into a solid dry mass that resembles a hockey puck. This puck would be able to hold its own in the event of an accident, which would normally wreak havoc on the surrounding environment.

These pucks would not leak, sink, or ignite, according to CN Rail. This new tech is still being tested, but if all goes well, crude by rail could re-emerge as a go-to means to ship heavy crude. If that happens, it'll be the pipeline stocks like **Enbridge Inc.** that'll derail.

"It's still early days, so there's a lot of work still to do. First and foremost, we want to perfect the pellet in terms of its shape, its size and the exact composition of polymer that we use in it," said Janet Drysdale, VP of CN Rail's corporate development. "We want to do the studies that will prove that it will float in fresh water, salt water, how it behaves in cold and in heat. All of that will be validated with additional lab work."

CN Rail recently filed a patent for this new tech, which gives the rail operator a huge advantage over its competitors, including **Canadian Pacific Railway Limited**, which will be fighting CN Rail for business in the oil patch.

Bottom line

Despite being in an old-fashioned business, CN Rail is innovating to stay head and shoulders above its competition. There's a reason why CN Rail is North America's most efficient railway, and going forward, I believe it'll further solidify its position as the best rail operator on the planet.

If CN Rail's patented new tech continues to show promise, I suspect CP Rail and pipelines could be in for a hit on the chin.

At these levels, CN Rail shares are worth every penny of the premium multiple. I've been loading up on shares of late, since I think shares [won't remain depressed for very long](#), especially as tailwinds mount over the next few years. I believe CN Rail is a pound-the-table buy at these levels before the new crude-by-rail tech causes a major disruption in the way heavy crude is transported.

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