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Canadian National Railway Company: Opportunity of a Lifetime to Drain Alberta's Oil Swamp?

Description

Many professional money managers continue to throw in the towel on Canada's struggling oil patch, as it's becoming less economical to run an operation in the Albertan oil sands by the day with growing transportation bottlenecks, carbon taxes, and promises of further regulation.

There's no question that Canadian energy firms are substantially less competitive versus their U.S. counterparts, and unfortunately, the worst may not be over for Canada's dire energy sector, as pipeline problems continue to mount.

Western Canadian Select (WCS) is trading at the widest discount to West Texas Intermediate (WTI) in nearly four years, and this gap may widen further, at least until Canada's oil veins become unclogged. Right now, the Albertan oil patch is turning into a swamp thanks to a lack of pipeline capacity; however, I believe all hope is not lost, even if pipeline problems continue for longer than originally expected. There's one company in particular that has the ability to assist the pipelines in draining the oil swamp.

Enter **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI), North America's most efficient rail operator that's arguably also the most innovative. The company is gearing up for a surge in crude-by-rail shipments, as it attempts to provide some relief to Alberta's oil patch by draining the oil swamp.

Crude by rail is a risky proposition. If a derailment happens, the surrounding environment stands to be severely impacted. A rise in crude-by-rail shipments sounds like a travesty for the environment, since more oil cars on the tracks mean a higher probability of derailments with crude consequences.

CN Rail has stepped up to the plate to capitalize on an opportunity to steal the glory away from the pipelines by developing and patenting an innovative means to transporting bitumen safely without causing substantial risk to the surrounding environment in the event of a derailment. The tech process involves having heavy crude mixed with a polymer to create a solid mass called CanaPux, which is less flammable, buoyant, and will cause minimal damage should a derailment occur.

If refiners are willing to embrace the new means of crude transportation, and if the process is economical, CN Rail certainly has an opportunity to pick up the slack of the pipelines over the next few years. And should the CanaPux transportation be as promising as CN Rail believes, it's not too far-fetched to think that regulators may scrap pipelines in favour of this new means of transporting crude by rail. Who knows? CN Rail may even have the opportunity to work out a deal to share this technology with **Canadian Pacific Railway**.

Bottom line

Pipeline frustrations are likely to continue for a considerable amount of time, but in the meantime, I see this as an opportunity for the rails, CN Rail in particular, which could change the way crude is transported forever. Once there are statistics on the efficacy of CanaPux transportation by rail, Canadian regulators may praise "crude by rail 2.0" and swing the axe at future pipeline projects.

CN Rail has the potential to make a profound difference for the future of heavy crude transportation, and I think investors are overlooking the long-term possibilities. The stock currently trades at a mere 13.5 price-to-earnings multiple with a larger-than-average dividend yield of 1.86%. At these levels, considering CN Rail's promising new tech, I think shares are an absolute steal — NAFTA rip-up or not. Foolish long-term investors would be wise to buy the stock today before this train leaves the station.

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