Long-Term Investors: These 2 Stocks Are Poised to Take Off in 2018

Description

For those bullish on the economic prospects of Canada, North America, and the world for the foreseeable future, the railroad sector may be a space to consider as a proxy for all that bullish sentiment. After all, when the economy is operating well, freight volumes tend to be robust, and margins tend to expand, as rail operators are able to squeeze every bit of efficiency out of a system operating at or near capacity.

With Canada's two largest railroads, **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI), both sporting improving fundamentals and volumes not seen in quite some time, questions of just how much room these companies have to grow top- and bottom-line numbers each and every quarter remain. I have remained bullish on both firms for quite some time, and with very similar fundamentals and exposure profiles, I believe both firms provide an interesting investment opportunity in this current environment for a number of reasons.

Slow and steady is one way to win in a correction

Investors seeking safety often look to sectors such as railroads for security in times of distress. The long-term contracts that rail companies such as CP or CNR have secured with producers are hard to break, and volumes of key commodities such as grain (or oil — I'll get to that in a second) are unlikely to slow down, despite reductions in overall spending on consumer goods.

The certainty railroads provide investors has been a key investment thesis of some of the most iconic investors of all time, including Warren Buffett. The Oracle of Omaha has been heavily invested in railroads for decades, focusing his investment dollars on U.S. railroad Burlington Northern Santa Fe. Despite being a capital-intensive industry (Mr. Buffett has committed to re-investing billions in his railroad over many years), the stability of returns and growth railroads have seen over time, linked to economic output growth, are a reason many long-term investors tend to put a significant chunk of investment dollars in this sector.

Significant opportunity within the oil sands sector remains

With reports that the current political environment surrounding pipelines traveling through western

Canada could cost the Canadian economy more than $10 billion per year, near- and mid-term tailwinds may be provided to the Canadian rail sector from the country's embattled oil sands producers in western Canada. Getting oil out of western Canada and into key markets in the U.S. has become increasingly difficult. With pipelines operating at or near capacity, and new capacity not set to come online for a couple years, I expect to see some sort of announcement in the next quarter or two that CP or CNR will be able to pick up some of the slack for producers.

Both sides appear to be negotiating at this point in time, with Canadian railroads seeking long-term contracts to offer capacity to producers, but should a deal take place, yet another headwind for this sector will make both CP and CNR great investment opportunities for investors with a time horizon of more than 10 years.

Stay Foolish, my friends.

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Date
2025/08/29
Date Created
2018/03/05
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