



## Canadian National Railway: Should You Buy?

### Description

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) has been a favourite company of mine for some time. I like that it has an incredibly wide economic moat with no new competition on the horizon. I also like that it acts as a barometre of the economy. If shipments are up, that means goods are being purchased, which means the economy is functioning well.

And for the most part, Canadian National is the best play on the market today, though the Q4 results were a little disappointing.

Let's take a look.

Net income increased by 156% to \$2.6 billion in the fourth quarter when compared to Q4 2016. However, \$1.764 billion of that is derived from the lower U.S. federal corporate income tax rate. Without that, adjusted net income was actually down by 6% year over year at \$897 million.

It's easy to see where the drop in earnings came from. Although revenue increased by 2% to \$3.285 billion, operating expenses increased by 9% to \$1.984 billion. And its operating ratio, which [I've argued](#) is the key to Canadian National's success, increased by 3.8 points to 60.4%.

For years, Canadian National lead all major railways in North America with its operating ratio. The lower that number goes, the more profit the company is generating, so I'll be looking for it to improve in the coming quarters. If it doesn't, my thesis about the company might begin to change.

Another area where I am becoming more bullish is on a new technology that Canadian National has developed, which fellow Fool writer Joey Frenette [has been talking about for months now](#).

Shipping oil by rail is dangerous. If a train derails, the oil can explode, or it can dump oil into the environment, causing significant problems. Governments have questioned if shipping oil by rail is safe enough.

New technology solves that problem. Essentially, the heavy crude is mixed with a polymer that turns it into a puck-shaped solid mass called CanaPux. This is less flammable, it's buoyant, and in the event

that there's a derailment, it won't leak anywhere.

This technology could be a game changer. Pipelines have argued that they are the safer way of transporting oil, but if Canadian National can start carrying oil in this new solid puck form, the conversation changes. And if it's economical, more of the shipment business will move to the railroads.

Not to mention, there's an opportunity here for Canadian National to licence the patent to other railways, creating a new revenue stream.

Since the beginning of the year, Canadian National has given up a little over 9%. That creates a great opportunity for investors to pick up shares of this stock at a slight discount. Nevertheless, you should keep an eye on this one. If the operating ratio doesn't improve or, at the very least, stabilize, earnings could weaken to the point that investors could start dumping. Canadian National is the best railroad when it's operating incredibly efficiently. I expect to see that happen over the coming quarters.

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