A Great Buying Opportunity: Canadian National Railway

Description

Every so often an otherwise great investment experiences a price drop, which represents a potentially great buying opportunity. During last month's correction, more than a few great stocks saw sharp drops that effectively eliminated all of their year-to-date gains despite otherwise being great long-term investments.

Canadian National Railway (TSX:CNR)(NYSE:CNI) was one such company that I highlighted as being one of several great investments on sale.

Earlier this month, Canadian National CEO Luc Jobin stepped down, which saw a search for a new CEO begin. Critics were also quick to point out the recent difficulties Canadian National experienced, with delays stemming from heightened demand across its network.

Why invest in railroads in 2018?

Railroads are one of the most deceiving investments on the market; they're often regarded as inefficient technology from the previous century, especially when considering the advent of IoT and potential autonomous driving (and by extension, autonomous freight).

Witnessing a kilometre-long freight train hauling goods is an impressive sight, but few of us realize just how much freight it carries, to say nothing of how many markets the train passes through.

Canadian National transports $250 billion worth of goods each year, from automotive parts and raw materials to crude oil and wheat. Collectively, railroads account for nearly 40% of all freight in the U.S., and Canadian National's impressive track network has 75% of the U.S. population within easy reach.

Why Canadian National?

Among all the Class I railroads operating in North America, Canadian National offers one of the largest and most efficient options for investors. The 32,000km network is the only railroad with access to three separate coastlines.

That coastline access provides an incredible moat against competitors and any potential new entrants to the market. Further, after a series of mergers back in the 90s, the Surface Transportation Board (STB) set strict requirements for Class I mergers, which further solidifies the moat Canadian National enjoys, thereby protecting it from merging competitors.

Efficiency is another key factor that has come under increasing scrutiny of late. Surges in freight led to a series of delays and frustrations from customers, and the lackluster response to those delays likely played a hand in the recent CEO vacancy.

The surge in freight, and by extension, the delays it caused, are substantial. Countless farmers were left waiting for a freight car to ship their goods to markets and ports, but none was available. To illustrate how far-reaching those delays and backlogs have become, during the week of February 12, Canadian National delivered just 17% of its orders.

To counter this, Canadian National leased 130 locomotives to boost capacity and address any delays. The company has also earmarked a massive $250 million investment in the west to upgrade infrastructure and add more tracks.

Those problems weren’t limited to Canadian National, however. A colder-than-expected winter coupled with a better-than-expected harvest last fall created a glut followed by a backlog of freight that both national railroads were unable to cover.

Is Canadian National a good investment?

The delays Canadian National experienced are best described as seasonal issues. The backlog will get cleared, capacity will be added, and the performance of the entire railroad will improve, leaving an efficient operation that should form the core of nearly every portfolio.

Year-to-date the stock is down nearly 8% to just over $95, pressing the stock down to near its 52-week low. For investors considering a position in Canadian National, this represents an excellent buying opportunity to benefit from that discount and 1.91% yield.

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