



How This Railroad Can Make You Rich

Description

One of the most interesting aspects to take into consideration when considering an investment is how that investment could benefit from or be a detriment to other related areas of the market.

The housing market, for example, could be a boom-or-bust factor for banks, depending on how exposed the bank is to the mortgage market. Over time, this has contributed to some banks seeking to [expand outside their traditional market](#) to diversify their holdings and create a hedge against a potential drop in business at home.

One such intriguing investment is the railroad sector — more specifically, **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)).

Aren't railroads low-tech holdouts from last century?

This is the most common — and untrue — statement to make regarding railroads. Railroads are technically technology from well over a century ago; track networks originally placed in the early days of Confederation traverse the entire continent and have led to communities being built around those railroad tracks.

In other words, railroads, no matter how old, still have an incredible moat.

In a similar vein, we place little thought into a long freight train passing by, apart from its length, completely disregarding the sheer amount of freight hauled and the distance that freight is traveling. In fact, rail freight constitutes over 40% of all freight traffic in the U.S., hauling everything from automotive supplies and raw materials to crude oil and wheat from one edge of the continent to another.

Why Canadian National?

Canadian National is the largest railroad in Canada and one of the largest on the continent. Apart from the natural moat that comes with any railroad, Canadian National is the only railroad with access to three coastlines, thanks to its massive 32,000 km network from coast to coast and through the U.S.-Midwest to the Gulf Region.

That network boasts access to 75% of the U.S. population and is a key point in Canadian National being able to haul \$250 billion worth of goods each year.

In some ways, Canadian National acts as a vein to the overall North American economy.

The opportunity for investment

The benefits of investing in Canadian National are neither new, nor are they unheard of. Canadian National is mentioned frequently as a [great dividend investment](#), owing in part to its strong growth and stable business, which consistently outperforms the market.

While that 1.94% yield seems attractive, the real benefit comes in the form of the opportunity presented through a myriad of unrelated events.

This winter has been exceptionally harsh and cold, which has led to a series of shipment delays. Compounding this is the fact that the harvest from last fall was much better than expected. As a result, a growing number of farmers were left waiting for a freight car to arrive to ship their goods to the markets. During this past February, that backlog became so extreme that Canadian National met just 17% of its orders.

For Canadian National, a company known as a leader in efficient operations, this was a significant blow, ultimately contributing to the departure of its CEO.

These events have had a profound effect on the stock, which is currently trading near 52-week lows in the sub-\$100 range.

Thankfully, the winter weather plaguing the entire rail industry has finally subsided, and the trains are running again. Canadian National has identified several areas to improve, including setting aside \$250 billion for track and infrastructure improvements in the west of the country as well as leasing 130 locomotives to clear any remaining backlog.

While the delays were seasonal, the opportunity for investors is not. Canadian National currently trades at a ~10% discount, making this an excellent opportunity to pick up a great stock at a discounted price.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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dafxentiou

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