# 1 Top Infrastructure Stock That Will Benefit From Higher Commodities

## Description

Commodities, notably metals and oil, have rallied solidly since the end of 2016, and there is every sign that firmer prices are here to stay, at least for the foreseeable future. While that clearly is a boon for miners and Canada's energy patch, it is also beneficial for companies that provide vital infrastructure and other services to those industries. One company that is poised to benefit significantly from greater demand for commodities is **Canadian National Railway** (TSX:CNR)(NYSE:CNI), which recently reported its first-quarter 2018 results.



**Now what?**

Greater commodities consumption will trigger greater demand for bulk freight transportation. The most economic and efficient as well as least-risky means of transporting bulk freight is by rail. Because of Canadian National's transcontinental rail network, demand for its transportation services will rise significantly as the miners and upstream oil producers boost production to take advantage of higher prices.

This is evident from the company's first-quarter results. The volume of carloads for coal rose by 10% year over year, while metals and minerals shot up by 4%. That can be attributed to increased coal and metals production during the quarter.

Nonetheless, Canadian National reported net income of $741 million, which was a 16% decrease compared to 2017. That can be attributed to higher operating expenses and weaker RTMs caused by harsh winter operating conditions.

Even after revising its 2018 guidance downward, Canadian National expects adjusted earnings per share for the year to rise by 5% when compared to 2017. That will be supported by higher earnings from bulk freight transportation due to strong demand for frac sand, steel, and aluminum as well as the potential for crude by rail to expand if higher oil prices remain in play for a sustained period. Then there is the Canadian grain harvest, which is forecast to give second-quarter 2018 demand for Canadian National's freight services a solid boost, leading to higher second-quarter earnings.

The company has also implemented a program aimed at improving services as well as efficiency across its network, which over time will support earnings growth. To do this it has increased capital spending to $3.4 billion, which is $200 million greater than 2017. This program includes expanding Canadian National's track network, including the allocation of $400 million to new track infrastructure in western Canada and upgrading locomotives as well as other rolling stock. It will position the company for strong growth in 2019, which should give earnings a healthy bump.

While debt by the end of the first quarter had grown by almost $1 billion to $11.9 billion, Canadian National still maintains a solid balance sheet. That debt is less than two times the company's EBITDA, meaning that it is quite manageable.

**So what?**

Overall, firmer global economic growth and greater demand for metals, oil, and coal all bode well for Canadian National. When combined with increased spending on upgrading its track infrastructure as well as rolling stock, operating efficiencies will increase giving margins, and hence earnings, a healthy boost.

An attractive aspect of investing in Canadian National is the company's long history of rewarding investors through the payment of a steadily growing dividend. It has hiked its dividend for 22 years straight, giving it a yield of just under 2%. There is every indication that further annual dividend increases will occur, as Canadian National returns to growth and earnings increase.



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