



## This Railroad Has Become a Very Attractive Investment

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) has one of the most impressive moats of any company on the market, yet investors often dismiss the company as a relic of an era long passed its prime.

Railroads aren't exactly the bleeding edge high-tech investment you would expect from a company that hauls over \$250 billion worth of goods each year, yet that's exactly what Canadian National is.

Here's a review of why now, more than ever before, this leading railroad belongs in your portfolio.

### **Canadian National's moat is more than impressive.**

It's no surprise that railroads offer one of the most impressive moats on the market, but few people realize just how impressive and secure that moat is.

Railroads connect every major metropolitan area on the continent with the factories, ports, and warehouses necessary to keep the economy running. In some ways, rail networks can be viewed as arterial veins of the North American economy, and Canadian National's network of over 32,000 kilometres of track is the only railroad on the continent with access to three coastlines.

Building and running a railroad is an expensive business, Canadian National's massive network size effectively prevents any would-be new competitors from emerging to counter CN's supremacy.

From a mergers and acquisition standpoint, following a series of mergers between Class 1 railroads in the 90s, the Surface Transportation Board (STB) set in motion a series of controls and regulations to discourage, if not prevent, mergers from Class 1 railroads from occurring.

### **For a railroad, efficiency is king**

Hauling freight across the continent and through intermodal terminals requires a mastery of logistics and incredible efficiency to still emerge profitably. Fortunately, this is one area in which Canadian National has excelled at in the past.

The operating ratio is a measure used by railroads to indicate their efficiency, which is the operating expenses as a percentage of revenue. The lower the number, the more efficient the railroad.

At the end of fiscal 2016, Canadian National's operating ratio was an industry best 55.9%. More recently, that number has slipped, coming in at 67.8% in the most recent quarter. That slippage was primarily attributed to the long and harsh winter, which followed an unusually plentiful harvest.

### **Those delays made a unique buying opportunity**

The unfavourable weather caused a number of system-wide delays, which caused a domino effect, ultimately leading to Canadian National meeting just 17% of its orders in February and reporting [weaker-than-expected results](#) in the most recent quarter.

However, the delays did create two unique situations that potential investors in Canadian National should take into consideration.

First, the company leased an additional 130 locomotives and hired additional crews to boost capacity and clear the backlog. This not only cleared the backlog stemming from the seasonal delay, but also forced Canadian National to commit to further capital upgrades, which now total \$3.4 billion and include \$400 million earmarked specifically for infrastructure development in the western half of the country.

The second point relates to the impact of the delays this past winter. The delays, which have since cleared, drove the stock price down and in turn created an intriguing buying opportunity for investors.

While Canadian National has mostly recovered from the drop in stock price, the company still trades relatively flat over the trailing six-month period. This scenario is unlikely to continue for much longer given the incredible buying opportunity that Canadian National continues to represent.

### **Is Canadian National a good investment?**

Canadian National remains a great investment opportunity for investors looking for growth as well as income. The quarterly dividend payout provides a healthy 1.78% yield, which, while not the strongest yield on the market, is a [stable, secure and growing dividend](#).

Canadian National currently trades at just over \$102 with a P/E of 10.84.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)

2. TSX:CNR (Canadian National Railway Company)

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