

Don't Underestimate This Stock as a Growth and Income Driver

Description

Railroad investments may not seem like the ideal long-term investment to make in our modern economy, particularly as the advent of the widespread release and adoption of autonomous driving and drone-delivery seem to be getting closer with each passing month. After all, railroads are technology remnants of the last century, so why invest?

The truth about railroads may shock you

Investors that are looking for a very secure long-term investment will undoubtedly be pleased with the [growth](#) that a railroad investment can offer. Despite their age, railroads contribute an incredible amount of freight to the North American economy. In fact, railroads haul more freight than any other method, and the sheer density of the North American rail network that connects ports, factories, and cities in every major market on the continent makes a compelling moat.

Even better is the fact that it is virtually impossible for new players to enter the market, as rail networks require an incredible amount of space, and cities have popped up around the existing track infrastructure. To put it another way, if a new company aimed to become a leader in rail transport, it would take tens of billions in land acquisition and construction costs and well over a decade of actual construction to come anywhere close to the scale that the larger railroads enjoy.

Mergers are unlikely to occur anytime soon. Following a series of mergers between large railroads in the 90s, the Surface Transportation Board (STB) imposed strict guidelines around the merger of railroads, particularly the larger ones.

In short, railroads provide a vital function to the economy, have a network that connects the entire continent, and it is both cost and regulatory prohibitive for new competitors to emerge to challenge the existing railroad titans.

Why this is the only railroad investment you need

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) is the largest railroad in Canada and one of the largest and most well known on the continent. The railroad has a massive track network that boasts access to three different coastlines — a feat that no other railroad on the continent can attest to, which gives it a significant advantage over its peers.

CN Rail is also widely regarded in the industry as one of the most, if not *the* most, efficient railroads. Railroads report their efficiency by calculating their expenses as a percentage of revenue, commonly known as the operating ratio. In the most recent quarter, Canadian National's operating ratio was an impressive 58.2%, reflecting an improvement of 9.6 points over the dismal first-quarter results announced earlier in the year, and just a slight 0.7 increase over the same quarter last year.

Another key reason that investors should consider Canadian National is its quarterly dividend. While

the yield stands at just 1.56%, the dividend has steadily risen over the years, along with the stock price that has already recovered from the low set earlier this year and is now up year to date by over 10%.

What about results?

Canadian National announced results for the second fiscal quarter last month that were a complete turnaround from the prior quarter, where an extremely long and harsh winter caused system-wide delays and resulted in only a fraction of deliveries being made. Canadian National hired more staff and added additional locomotives to clear the backlog, and it announced that it would be investing in improving infrastructure, particularly in the west of the country.

During the second quarter, Canadian National net income surged 27% over the same period last year to \$1,310 million on revenues of \$3,631 million, which was also an impressive 9% increase over the same period last year. Adjusted net income for the quarter came in at \$1,120 million, or \$1.51 per diluted share.

In terms of guidance, the railroad is on track to deliver adjusted diluted EPS for the quarter to fall in the range of \$5.30-5.45, which is a noted improvement over the \$4.99 last year.

Should you buy Canadian National?

A railroad investment should be part of every [well-diversified portfolio](#), and Canadian National is a compelling investment option that is hard to ignore. Between the strong growth and stable dividend that is also steadily growing, Canadian National is a great investment for the long-term investor.

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