Buy This Stock Today and Hold it for 10 Years

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) is not just Canada's largest railway, but it is an intriguing investment option that should be core to nearly every portfolio, despite growing perceptions that the company is no longer that attractive, that railroads have no growth, and that other emerging technologies are going to render them obsolete within the next few years.

Let's try to tackle each of those claims.

Are railroads becoming obsolete?

That's the pressing question that a lot of investors are asking. After all, this is 2018 and the growing opportunities of autonomous driving and trucking are increasing by the day, so would we need to haul freight around on massive rail tracks like we've done for well over a century already?

In reality, railroads still comprise a massive amount of freight — hauling more than any other method across greater distances on massive networks that connect every major metro area and port on the continent. That kind of network and hauling potential doesn't disappear overnight, and there is currently no known substitute in production or in development that will move that much freight to that many destinations without an impact to the existing transportation infrastructure.

In the case of Canadian National, the railroad hauls an incredible $250 billion worth of goods each year and is the only railroad that is connected to three coastlines on the continent.

In short, railroads provide a necessary service, acting as an arterial vein to the entire economy, which, given the incredible size of their rail networks, constitutes an impenetrable defensive moat and a stable source of revenue for the company.

Railroads lack any real growth or income prospects

The recurring source of revenue that Canadian National earns from hauling freight is often misinterpreted as lacking growth. Rail networks are already established around built-up areas, and strict rules by the STB are in place to discourage mergers between large railroads, so how can a rail network grow?

That growth will come through further investment, upgrades, and the changing face of the economy. Following a series of weather-induced delays last winter, Canadian National instituted a series of investments earlier this year that included new locomotives, staff, and infrastructure upgrades to sections of its network. In total, the railroad has spent or allocated $3.5 billion for this year and has already invested $20 billion over the course of the past decade into those upgrades.

Also worth noting is that despite the relative stability and slow growth rate of a railroad investment, Canadian National's stock has risen over 80% in the past five years, with its quarterly dividend also seeing a healthy hike on an annual basis that goes back well over two decades. By way of example, earlier this year Canadian National hiked its payout by 10%.

Final thoughts

Canadian National may not be the sexy investment opportunity posed by upstart technology firms that are revamping the way companies do business and even have the highest dividend yields in the market. What Canadian National does offer, however, is a well-run, mature company that has steady growth, recurring revenue, and a growing dividend that investors can feel good buying and then forgetting about for a decade or more.

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