Is Canadian National Railway (TSX:CNR) About to Revolutionize Oil Transport?

Description

Canada's top energy producers have been plagued with pipeline shortages, often turning to rail cars to get their product to market.

This has been great news for **Canadian National Railway** (TSX:CNR)(NYSE:CNI). Approximately 20% of the company's traffic is either in petroleum or chemicals. CN's network — which covers all of Canada and portions of the United States — is well positioned to take Alberta crude to American refineries. CN's network even stretches down far enough it can take crude to ports on the Gulf of Mexico for export.

CN is also benefiting from the energy production in a different way. Fracking requires a great deal of sand, which is used to prop open the cracks formed by the process. CN shipped 131,000 carloads of sand in 2017 and is on pace to do similar volumes in 2018.

One disadvantage to shipping oil by rail is the risk of a catastrophic spill: just one derailment could dump massive amounts of oil onto fragile ecosystems. Of course, the last thing a rail operator wants is to have a spill. It's not just for environmental reasons, either. Train accidents are also expensive.

Canadian National wants to change the way oil is shipped by rail. The company is working on a revolutionary new solution, a process that would allow it to ship oil as a dry product. This would open up all sorts of interesting opportunities for both CN and Canada's top energy producers.

Enter Canapux

The technology — which has been dubbed Canapux because the end product resembles a hockey puck — seems pretty simple on the surface.

The process takes bitumen, runs it through a processing process, and spits out a product about thesize of a bar of soap emerges. The puck is then coated with a polymer finish that protects it from both leaking and outside forces. The pucks are flammable, but only if temperatures exceed 145 degrees Celsius.

The end product is fully sealed and can be shipped just like any other dry product. If there's ever a spill the product is simply picked up with no long-term impact to the environment. Obviously, this makes the shipping process much easier.

When the pucks are delivered to their final destination, the polymer is then separated from the bitumen, leaving the latter ready to be refined. The polymer can then be sold on the open market or shipped back to the original processing center for the next batch of bitumen.

CN has many ways to win if this process catches on. It could build processing centers near large oil sands projects. Depending on cost, some producers who currently use pipelines to get their product to market may switch. And perhaps most important, it could open up huge export potential.

As we've seen with recent pipeline expansion efforts, many people don't want a pipeline in their own backyard, which has hampered efforts to market Canadian crude worldwide. But if oil is shipped in a safe pellet form, it can be loaded and unloaded just like any other dry good, which makes oil far easier to ship.

The bottom line

Unfortunately for CN investors, this process is likely years away from the spotlight, as it's only at the pilot project stage today. Even if the technology works, it's still going to take a while to build processing plants and convince oil producers to go along.

Still, investors should be looking at this today before it becomes built into CN's stock price. By the time this becomes a sure thing, it'll be far too late.

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