Why You Need This Warren Buffett-Inspired Stock in Your TFSA

Description

Warren Buffett isn't called "The Oracle of Omaha" for nothing. With one of the best long-term investing track records in history, he's a great investor to copycat. But for Canadians who prefer to support domestic companies, this presents a problem. Warren Buffett owns few Canadian stocks, so if you want to keep your money on the TSX, it's hard to directly copy the oracle's plays.

But that doesn't mean you can't emulate them. There are many TSX stocks that tick all of Buffett's boxes and resemble companies he himself owns. One of them is an almost perfect parallel to Buffett's wildly profitable Burlington Northern Santa Fe investment.

The BNSF story

In 2009, Warren Buffett made headlines for wholly acquiring BNSF Railway through his holding company, Berkshire Hathaway. At the time, market skeptics scratched their head: *"a railway? In 2009? What could he be thinking?"*

It was a perfect Buffett play: contrarian, old-fashioned, boring… and profitable. Eight years after Buffett bought BNSF, Bloomberg released a detailed report showing that the railway buyout had paid off handsomely for him. And those who emulated the play also got a payoff: a similar investment in **Canadian National Railway** won big for Buffett's friend Bill Gates, more than tripling in price from the time he bought it in 2011. Today, one of CN's competitors is poised for similar growth:

Canadian Pacific Railway (TSX:CP)(NYSE:CP)

Canadian Pacific is a railway line that operates in Western Canada and parts of the U.S.

It is primarily a freight railway shipping energy, food and fertilizer products. The company also operates some small commuter lines, including the Milton line of GO Transit and a few lines in Montreal.

Canadian Pacific has some incredible similarities to BNSF. First, it's a freight railway line. Second, it ships similar goods, like agricultural, energy and food products. Third, it has all the usual qualities

Buffett looks for, like strong earnings growth (22% year-over-year), high ROE (37%) and a low P/E ratio. This all adds up to a high-growth company that's also cheap. But that's not even the best thing the company has going for it.

Large moat

Like all railways, Canadian Pacific has a large economic moat (i.e., a feature or set of features that makes it hard to compete with).

To begin with, it has huge cost efficiency compared to trucks: a train can store a lot more than a truck can, so it burns less fuel per good shipped. Also, it owns the tracks it operates on, so it enjoys an impenetrable barrier to entry on the infrastructure it uses. And finally, the cost of setting up a competing railway in the same area is prohibitively high, so the company is protected by a second, cost-related barrier to entry.

What this means is that Canadian Pacific has almost no competition in its service area, except where that overlaps with other railways… And the only real contender here is CN.

Bottom line

Canadian Pacific Railway is a perfect Buffett pick. With fast growth, a sky-high ROE, and a huge economic moat, it has all the ingredients needed to beat the market. But because it's in an "unfashionable" industry, it's barely on anyone's radar. Right now you can buy one of the best businesses in Canada for less than 15 times earnings. A buy? Almost certainly.

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