



Now Is the Time to Buy Canada's Top Infrastructure Stock

Description

Investors seeking a combination of steady growth, regular income and solid defensive credentials should look no further than **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)). Growing rail traffic and demand for bulk freight services will serve as a powerful tailwind for the only North American rail operator to own and operate a true transcontinental network.

Solid annual results

Canadian National announced some solid 2018 results, but despite reporting record revenue and operating income, which grew by 10% and 5% year over year, respectively net income declined by 21% to \$4.3 billion. The sharp drop in net income can be blamed on additional expenses incurred by Canadian National restructuring its operations to reduce costs.

The notable growth in revenue and operating income was a result of greater freight volumes, which saw revenue tonne miles (RTM) rise by 5% and the volume of carloads expand by 4% year over year. The growth in freight volumes was primarily driven by a marked increase in the amount of petroleum, chemical products and coal that was shipped during 2018. Those higher volumes saw freight revenue for petroleum and chemicals increase by a very healthy 20% compared to a year earlier, while for coal it shot-up by 24%. There are signs that this [strong revenue growth](#) will continue for the foreseeable future.

You see, the emergence of a localized oil supply glut in Western Canada because of record inventories sparked a substantial increase in oil shipments by rail. According to data from the National Energy Board (NEB) crude by rail shipments reached a record of 330,402 barrels daily for November 2018 as the local petroleum industry attempted to drain the glut.

In fact, the situation was so severe it saw the discount applied to Canadian light and heavy crude reach record levels in November 2018, forcing the government of Alberta to introduce mandatory production cuts. Once those cuts were announced, the price differentials narrowed so significantly that some industry insiders are claiming that it is [uneconomic](#) to ship crude by rail. This saw **Imperial Oil Ltd.** announce that it intends to dial down February 2019 crude by rail shipments to near zero after

nearly halving them during January. In response, Edmonton shaved 75,000 barrels daily off the mandatory production cuts for February and March to lower prices, although thus far it has had little effect.

While this will have a short-term impact on Canadian National's freight volumes, demand for crude by rail will grow at a solid clip over the longer term. This is because it will take many years to boost pipeline exit capacity, meaning that ramping up crude by rail shipments remains the only viable means of addressing the lack of oil transportation capacity in Western Canada. That demand can only grow, with industry insiders forecasting that Canadian oil production by 2035 will expand by 33% compared to 2017 levels.

Because rail remains the only safe and cost-effective means of shipping bulk freight coupled with Canadian National operating the only transcontinental rail network in North America, any economic improvement will increase demand and hence earnings. Canadian National's strategic plan to expand as well as improve its infrastructure, add new rolling stock and drive efficiencies across its network will bolster capacity as well as profitability.

The positive outlook for Canadian National coupled with solid underlying 2018 results saw management hike its dividend by 18%, giving it a sustainable yield of almost 3%.

Why buy Canadian National?

Canadian National's wide almost insurmountable economic moat combined with it being the largest player in an oligopolistic industry protects it from competition and economic downturns while virtually assuring earnings growth. Its commitment to expanding its operations and implementing efficiencies will give profitability as well as earnings a healthy lift. Those characteristics make Canadian National a must-own stock for every investor seeking steady growth and a reliable income.

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