# Why Canadian National Railway (TSX:CNR) Is Still 1 of the Best Long-Term Stocks

## Description

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**Canadian National Railway** (TSX:CNR)(NYSE:CNI) is one of the most loved stocks among investors in Canada. In the last 10 years, an investment of $10,000 would be worth nearly $70,000 today. The stock is one of the best performers on the Canadian market. On an annual basis, the company handles more than $250 billion of goods, across more than 19,500 miles of tracks.

Railways are some of the best investments because they are tied to the economic growth of the regions they serve. As long as the North American economy continues to grow, so will demand for railway capacity.

CN has a competitive advantage, because it's the only rail line in North America that connects three coasts. This gives CN a large region to operate in, which naturally diversifies its businesses through geographic and customer differentiation.

Total revenue has a compounded annual growth rate (CAGR) since 2012 of 6%, which is quite high for a large, well-established company. Margins have increased over the that period, as evidenced by the 8% CAGR in operating income for the same period. What's most impressive, though, is that during the same period, the adjusted earnings per share CAGR has been 12%.

Canadian National is clearly extremely efficient. Its adjusted operating ratio of 61.5% is among the best in the industry. In 2018, the company generated $2.5 billion in free cash flow, while $3.3 billion was returned to shareholders. The returns CN generates are impressive, with return on invested capital consistently between 15-17%.

The company has done well to diversify its portfolio so that no one segment accounts for more than a quarter of total company revenues. More than 65% of traffic starts and finishes on CN's lines. The well-diversified segments and customers allow CN to mitigate risks during industry cycles.

Chicago is a big hub for CN, as it stands right in the heart of its network. Chicago connects south and northbound traffic through the United States as well as east and west through Canada. Chicago is a very busy area for freight and passenger trains in general. CN's investment in the Chicago area has helped to increase efficiencies and reduce bottlenecks for itself. CN estimates its able to get its trains through the area twice as fast as its competitors.

Another catalyst for CN is its exclusive access to Prince Rupert, the fastest deep-sea port in North America. In addition to it being the fastest growing, it's also the closest to Asia, which is obviously a huge advantage.

The company has a track record of producing superior returns. In the last five years, it's had a return on equity north of 20% each year. In addition, it continues to increase its dividend each year while also buying back stock.

CN is one of the best long-term stocks in Canada, which makes it hard to ever find it undervalued. With at least 15% return on invested capital each year since 2012 and improving efficiencies, CN should be a core holding in all investors' portfolios.

The exposure to further economic growth in North America is important, but the exposure it has to Asia through Prince Rupert is the main catalyst for future growth.

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