



Here's Why Canadian National Railway (TSX:CNR) Is a Great Long-Term Holding

Description

There's no denying the fact that **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is one of the [must-have defensive investments](#) for nearly any portfolio. There are plenty of reasons why putting Canadian National on that perch makes sense too, with everything from the unique market position, growth prospects, and its deceptively attractive dividend all weighing in to make Canadian National the great investment that it really is.

Why invest in a railroad today?

That's the obvious question that gets thrown around a lot, and let's be honest here: railroads are a remnant of the last century where distances were larger, markets were smaller, and the need to haul goods longer distances was far greater.

In reality, railroads haul an impressive amount of freight across the continent each and every day that far outnumbers the amount of freight carried by other methods. The sheer amount of freight Canadian National hauls on an annual basis is valued at over \$250 billion, with the array of products varying from fertilizer and automotive components to raw materials, finished goods, and crude. Those products are also uniquely diversified across routes, so there isn't a single type of freight offsetting others, which works well when a slowdown in one segment can be countered with growth from another.

In terms of size, Canadian National's network spans nearly 32,000 kilometres connecting three separate coastlines, traversing nearly every major metro area on the continent. This is an often-overlooked advantage, as entire cities and communities have grown around that immense track network, making it nearly impossible for any viable competitor to emerge at this point with a legitimate challenge.

One of the main metrics that railroads use to gauge efficiency is what is known as the operating ratio, which is simply the company's operating expenses as a percentage of revenue. Canadian National is well known across the segment as having one of the best operating ratios in the business, which, in the most quarter, came in at 61.5%. To put that level of efficiency into perspective, many of other class one railroads have operating ratios that are well north of 70% or even 80%.

Turning to growth, the Port of Prince Rupert has become a major driver for Canadian National in recent years, thanks to an exclusivity deal in place as well as the unique position of the port; it is the closest port to Asia in North America with Canadian National providing direct routes from there to Chicago, Memphis, and New Orleans. Double-digit year-over-year gains stemming from that port have led Canadian National to pursue a similar agreement along the U.S. Gulf Coast, with the railroad announcing an investment of over \$95 million in infrastructure improvements to the region just last month.

Finally, we come to Canadian National's dividend. The current 1.73% yield may seem a little low for an income-producing investment, but in reality, Canadian National continues to provide handsome yearly upticks to that dividend, including a whopping double-digit hike and a compound annual dividend-growth rate that has remained in the double digits for over two decades.

In other words, Canadian National is an [excellent long-term holding](#) that should be core to any portfolio.

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