Energy Investors: Buy CN Rail (TSX:CNR) Stock for Oil Upside?

Description

Is **Canadian National Railway** (TSX:CNR)(NYSE:CNI) the energy stock you didn't know you needed? Oil fans looking to swap out their big-name producers of the black gold need not hang up their portfolios just yet, because CN Rail could potentially fill a gap for upside thanks to its oil-by-rail operations.

Paying a dividend yield of 1.77%, CN Rail is a favourite of passive-income investors looking for diversified assets in a single stock. The reason for this is simple: from coast to coast, CN Rail transports almost every commodity upon which the Canadian economy depends. For infrastructure and transport exposure, it doesn't get any better than this keystone TSX ticker.

An innovative play for oil upside

CN Rail's most recent quarter smashed expectations. Shipping increased for crude and refined petroleum products, drawing in a massive 25% rise in revenues from the crude-by-rail branch of activities. The news saw the transport ticker rally close to an all-time high. Rail fans may have noticed that its operating efficiency stepped up a notch in the quarter with total carloads up 2%.

With oil stocks flat at the moment, energy investors may be eyeing alternatives — and they would be right to do so if long-term stability in distributions is key to their financial goals. There's little wonder that oil is flat, with disappointing manufacturing data, assured OPEC supplies, and the grinding U.S.-China trade dispute weighing on oil prices as well as downgraded outlooks in both Brent and West Texas Intermediate crude.

The key ingredient to CN Rail's oil transport innovation is CanaPux, a relatively safe way to get extra-heavy crude (bitumen) from point A to point B by rail. The bitumen undergoes a blending process that binds it with polymer, forming an inert "puck" for export to international buyers. The end user can then melt the pucks, separating the polymer for reuse. The pellets can float and are non-volatile, reducing the risk posed to the environment by a possible derailment.

The system of oil by rail may be more appealing to an energy investor than a conventional midstream company operating a network of pipelines. Indeed, oil players reliant on pipelines have been subject to an increasing amount of scrutiny from all quarters of late, with **Enbridge** being an illustrative case in point. The midstream giant has seen a number of challenges to its pipeline projects this year, while changes to its Mainline system have been the subject of criticism.

In terms of value for money, investors won't be getting a cheap stock. CN Rail is overpriced compared to its peers, with shares selling at 4.85 their book value. However, its dividend is secure, the company is expecting some growth in profits, and its operations and market share make it one of the widest moats on the TSX. In terms of asset management, CN Rail is in acquisitions mode, buying the Quebec-New York line from U.S. operator **CSX**.

The bottom line

Dividend stocks don't get much more defensive than CN Rail. With its key involvement with a range of Canadian and U.S. industries, and with a vast geographical reach on this continent supplying international markets, CN Rail's oil-by-rail innovations make its stock a solid buy.

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