

CN Rail (TSX:CNR) Stock Is a Strong Buy on Weakness Right Now

Description

As the rail strike continues this week, the importance of **CN Rail's** ([TSX:CNR](#))([NYSE:CNI](#)) network to a wide range of crucial business sectors is highlighting the vulnerability of the Canadian economy. Stock in the rail operator is dipping, and the effects of the strike are already being felt. The strike, at the heart of which are proposed job cuts, could have a lasting effect if it continues.

A domino effect across the Canadian economy

CN Rail's proposed job cuts are troubling for a number of reasons: most obviously, the proposal highlights that the North American economic outlook has indeed worsened. It also shows how important crude-by-rail is as a means of draining the oil patch. Further, the proposed cuts illustrate that the rail operator is prepared to scale back on staff in order to deal with unfavourable market conditions.

The strike could very well have a broader impact on the economy if CN Rail and the Teamsters Canada Rail Conference take too long to hammer out an agreement. With approximately 3,200 workers downing tools, the backlog of shipments could lead to long-term financial damage among Canadian companies. From agri products to forestry goods, the shipments are piling up, and every missed sale counts.

And the issues faced by the rail operator and its workers are far from simple. On the bargaining table are medical benefits, rest requirements, and the company's use of remote controlled train operation. With no clear solution immediately available, businesses such as chemical manufacturers could even have to halt production.

Rail investors have a strategic value opportunity

From grain merchants to miners to retail outfits, CN Rail's network is, in many cases, the primary means of transport connecting terminals to customers. The fact that legislation may be needed to end the strike is also alarming. As anyone who follows the legislative process will know, an agreement could be a long time coming if a new bill is required to break the impasse.

Oil has been shown to be particularly vulnerable. Considering how reliant Canada is on its oil resources, the situation is alarming and could escalate quickly. Canadian heavy crude prices have already fallen as the CN Rail strike impacts oil shipping, with the discount of Western Canadian Select benchmark price against the West Texas Intermediate benchmark widening.

From an investor's perspective, though, the dispute is an opportunity to buy on weakness. With one of the [widest moats on the TSX](#), CN Rail belongs in a long-range portfolio built on strength and reliability of dividends. In the last five days the stock has shed around 2%. This could deepen if the dispute continues. The current yield of 1.78% could expand, and investors should lock it in at its richest point.

The bottom line

So far the negotiations have been largely under wraps, but the risk is clear. If the situation continues for any considerable length of time, businesses reliant on CN Rail's [transport and freight services](#) will be materially affected. The knock-on effects will ripple throughout the Canadian economy, and the end-user – the customer – will also be negatively impacted.

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