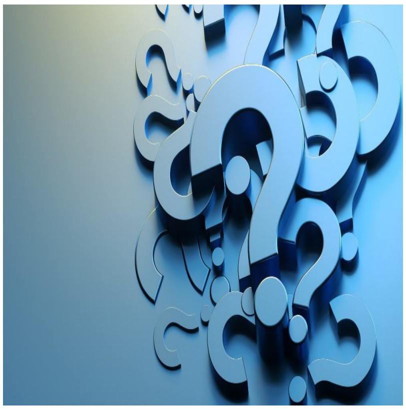

CN Rail (TSX:CNR) Just Fell 16% — Should You Buy the Dip?

Description

CN Rail (TSX:CNR)(NYSE:CNI) is seen as the backbone of the Canadian economy. With one of the widest moats out there, long-term investors should relish an opportunity to snag shares of the dividend growth king whenever they've been knocked down.

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Although the rails are a relatively cyclical play, shares of CN, also known as North America's most efficient railway, tend to hold up far better than your average stock when a recession hits.

Why? CN Rail offers a service that's so vital that a healthy economy just wouldn't be possible without it.

When Teamsters strikes late last year, we witnessed various sectors falling under a considerable amount of pressure. The strike just lasted a week, but boy, it seemed like an eternity for various firms that relied on CN Rail to move its goods from point A to point B.

CN Rail: A great way to weather the coronavirus-induced typhoon

At the time of writing, the **TSX Index** is down 23% from its all-time highs on the insidious coronavirus. Shares of CN Rail has held up relatively well, with shares just down 16% despite the perfect storm of negative non-coronavirus-related events that hit the company in the months prior, including the interruptive rail blockades and operational disruptions as a result of the week-long Teamsters strike.

Indeed, it's been a rough ride for CN Rail over the past few years. As the global economy looks to contract, I do think the modest discount on CNR stock makes it a must-buy here and now for cautiously optimistic investors who have no desire to be a hero — and would rather prepare for an economic environment that could fall somewhere between a recession and a depression.

CN Rail: There *is* good news even in these dark times

While the coronavirus (COVID-19) will continue to hurt CN Rail's growth prospects through 2020, with a possible spillover into 2021, I *am* encouraged by the company's reputation for defying the odds and rising above the competition, even during times of economic hardship.

The excellent managers behind the scenes are all about improving upon their operating ratio, regardless of what the exogenous environment has in store. That's a significant reason why I view CN Rail as a buy in the face of a recession.

Moreover, the Canadian railways had far healthier volumes relative to that of U.S. railways before the pandemic struck. As such, I expect CN Rail to continue rolling along during the recession while its American peers grind look to grind to a halt.

Finally, the company derives a big chunk of its revenues in U.S. dollars, putting it in a position to benefit from a weakening loonie. With oil prices plunging by an unprecedented amount on Monday, the Canadian dollar could easily fall to the US$0.60 range as the coronavirus-induced oil glut is unlikely to resolve itself anytime soon.

Foolish takeaway

CN Rail is the epitome of a wonderful business. The company has a wide moat, a stellar management team, and may rise to be a massive outperformer as the tides go out on the TSX.

So, if you're looking for a reliable currency hedge that won't stand to implode alongside the broader markets, CNR looks like a terrific bet while shares trade at a mere 4.3 times book on the coronavirus-induced pullback.

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