Why This TSX Giant Is a Must-Have for Every Portfolio

Description

Businesses with stable earnings generally withstand economic downturns. Investors should look for stocks that can perform well in all kinds of markets. Railroad giant **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is one such company that plays out well in both bullish as well as in bearish markets.

Canadian National stock was quite weak during the epic COVID-19 sell-off in March. However, it exhibited relatively faster recovery and recently reached its pre-pandemic levels. CN Rail stock has not only outperformed Canadian broader markets by a wide margin in the short term, but in the long term as well. But will it continue to do so? How does it look for the next five or 10 years?

Canadian National Railway: Competitive advantages

Canadian National stands tall among railroad companies on several fronts. Its 19,600-mile network joins three coasts: the Atlantic, the Pacific, and the Gulf of Mexico. This network serves as the backbone for the North American economy, the most important competitive advantage for the company.

It's highly challenging to replicate a similar network as it would involve significant capital investments. This, in turn, creates a high barrier for new entrants preventing the competition. Its larger market share in a duopolistic market is another long-term advantage.

Diversified revenue base

Moreover, Canadian National generates revenues from nine cargo categories, with Petroleum and Chemicals making up almost 22%. This diversified revenue base suggests stability and reliability. While some categories can bring down its consolidated revenues during recessions, other essential categories like grains can offset the impact up to a certain extent.

In a similar vein, Canadian National Railway announced record shipments for June 2020 driven by grains and fertilizers. This was CN Rail's fourth consecutive record month for carload and intermodal shipments.

This means one can expect a relatively minimal impact on CN Rail's second-quarter earnings amid the rising economic uncertainty. The pandemic has had a significantly negative impact on the global economy, forcing CN Rail to withdraw 2020 financial guidance. However, the record grain shipments in the second quarter should provide some breather to the company and its investors.

The near-term challenges will likely weigh on its financials and ultimately dent its market performance. However, it is well positioned to weather the crisis and will likely emerge stronger. Its past financial performance underlines the same.

Strong market performance

In the last 10 years, CN Rail managed to increase its profits by 5% compounded annually. This is unexciting when compared to some fancy tech growth stock. However, mature companies generally grow with this pace, and stability is what matters the most.

Interestingly, CN Rail stock delivered total returns of close to 400% in the last 10 years, beating many TSX stocks by a big margin.

Canadian National stock currently yields almost 2%, lower against TSX stocks at large. However, it has managed to increase dividends by 16% compounded annually since going public in 1996.

CNR stock has soared more than 30% since its record lows in March 2020. Thus, from the valuation perspective, the stock is trading 22 times its estimated 2020 earnings. This looks a tad expensive compared to its average historical valuation and peers.

Investors should consider allocating at least some part of their portfolios to such defensive stocks. Though slow-growing, they can provide much-needed stability during uncertain times.

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