This Stock Enjoys an Amazing Moat

Description

How defensive is your portfolio? When the term *defensive investment* is heard, most investors conjure up images of a utility or telecom. Don't get me wrong; those are both fine examples of defensive investments. But there's another business that we see or hear on a daily basis that is even more lucrative. Furthermore, that business offers an amazing moat, strong growth prospects, and a respectable quarterly dividend.

That business is **Canadian National Railway** (TSX:CNR)(NYSE:CNI), and here's why the railroad belongs in your portfolio.

Here's an amazing moat

Few people may realize this, but Canadian National enjoys an incredibly defensive moat. That advantage is not just over its peers but over other forms of freight.

First and foremost, let's talk about size. Canadian National is the largest railroad in Canada, and one of the largest in North America. Canadian National's vast rail network stretches over 40,000 kilometres in size. The sheer size of that network means that Canadian National is connected to every major metro area in Canada and many in the United States. More importantly, that network stretches from coast to coast and down through the U.S. to the Gulf Coast. That's a key point worth highlighting, as CN is the *only* railroad on the continent to connect three coastlines.

Adding to that advantage, let's not forget infrastructure. Rail networks are huge expensive operations that are built very slowly. In fact, most of the railroads in use today were built decades ago and have had entire communities spring up around them. From a defensive standpoint, this means that the chances of a competitor railroad emerging to challenge Canadian National are slim to none.

Additionally, following a series of mergers back in the 90s, the STB (Surface Transportation Board) enacted strict guidelines on the merger of large railroads. Again, there's that amazing moat at play.

What about results?

First, let’s state the obvious. The COVID-19 pandemic impacted all businesses, even Canadian National. In the most recent quarterly update, Canadian National saw revenue drop $421 million, or 11% over the same period last year.

Fortunately, the railroad is now seeing a strong recovery. Cargo volumes are up, surpassing their 2019 levels. Adding to that, a surge in grain volume and shipments helped offset a dip in oil shipments. In the most recent quarter, Canadian National managed to generate a free cash flow of $588 million. Across the first nine months of the fiscal year, Canadian National has generated free cash flow of $2,087 million.

Adding to that appeal is Canadian National’s dividend. The company provides a quarterly dividend, with a yield that works out to 1.71%. That might not sound as lucrative as some other options on the market, at least initially. That view quickly dissipates when factoring in a long-established practice of annual hikes and that the dividend is well covered. In fact, factoring in the growth of the stock easily makes this amazing moat stock a buy-and-hold candidate.

In my opinion, Canadian National is an excellent long-term investment that should be part of any well-balanced portfolio.

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