Buy This Railroad Stock Now

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) is Canada's largest railroad and represents a superb long-term investment option. There are several compelling reasons why CN is the railroad stock that your portfolio needs.

Critics of railroads often note that railroads are antiquated methods of transporting freight that have no place in a modern economy. Technically, there is some truth to that claim. Technologically speaking, railroads were considered high-tech a century ago. That doesn't mean that railroads aren't a good investment, nor does it mean that railroads aren't still valid forms of transporting freight.

Prospective investors should take note of the following key reasons why CN is a great long-term investment.

Why your portfolio needs a railroad stock

Freight by rail remains the single largest method of transport across the economy. To put that into perspective, Canadian National transports over $250 billion worth of freight each year. That freight can be just about anything from automotive components and chemicals to crude oil and wheat. This makes CN an incredibly diverse and defensive investment option.

Those goods are hauled on CN's network, which extends from coast to coast and down through the U.S. Midwest to the Gulf Coast region. To put it another way, CN is the only railroad on the continent that has access to three coastlines. This gives the railroad a competitive advantage over its peers.

In addition to boasting that impressive network, it's worth noting that railroad networks are incredibly expensive feats of engineering to build out. This only boosts the defensive appeal of railroads, as existing networks have communities that have developed around them. This complicates, if not eliminates, the prospect of a new competitor emerging to challenge CN.

What about results?

CN last provided its most recent quarterly update back in October for the third fiscal of 2020. During that quarter, CN reported results that were an improvement over the prior quarter but still down over 2019 levels. Specifically, revenue came in at $3,409 million, representing a drop of 11% or $421 million. On a per-share basis, CN earned $1.38 per diluted share, reflecting a 17% drop over the same period in 2019.

The ongoing COVID-19 pandemic was the primary reason for the drop. Canadian National did note that volumes sequentially increased with each month during the third quarter. This reflects the gradual scaling up of operations. Additionally, in terms of free cash flow, Canadian National has generated $2,087 million over the first three quarters of the fiscal year. This represents a $588 million increase over the prior period.

One more reason to consider Canadian National

Apart from operating a stable business that casts a wide moat over the entire North American economy, Canadian National also offers investors a handsome quarterly dividend. The yield on offer currently works out to a respectable 1.61%.

That may not sound like the most impressive return for an income stock, but Canadian National has provided a steady stream of handsome annual bumps going back over a decade. Throw in a history of impressive growth, and you have a railroad stock that is a great long-term investment for every portfolio.

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Date
2025/07/23
Date Created
2020/11/25
Author
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