Why You Should Invest in Canadian National Railway Stock

Description

Berkshire Hathaway has a simple policy when it comes to investments. The investment giant prefers to buy companies with solid moats instead of building moats themselves. Few companies have moats as large as **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Their moat literally spans 20,000 miles of tracks across Canada and Central America starting from the Atlantic and Pacific oceans to the Gulf of Mexico. The stock has gained a massive 86% exceeding the market return of 27% in the past five years. Since the pandemic, it has gained about 33%.

CNR is the only railroad on the continent with access to all the three coastlines ranging from the U.S. Midwest to the Gulf Coast region, giving it a competitive advantage over its peers. This significantly reduces the chances of the emergence of new competitors that can rapidly reshape the whole market.

Canadian National Railway is a recession-proof stock

CNR has remained very resilient amid the pandemic due to its defensive strategies. The company's Q3 financial statements were much better than the previous quarters, however, they couldn't match its performance in the prior-year period. Revenue came in at $3.4 billion, indicating a 11% decline compared with Q3 of 2019, but was higher than the $3.2 billion figure in Q2 of 2020. EPS also dropped 17% year over year in Q3.

However, CNR has increased free cash flows. It recorded a free cash flow of $2.08 billion over the last three quarters indicating an increase of $588 million. The company has also recorded one of the lowest operating ratios compared to its peers.

Estimates say that CNR has observed a significant increase in volume since the end of Q3. For instance, the company has transported a record volume of Canadian grain in the first nine months of 2020. Its grain and fertilizer segment has seen a revenue increase of 5% from 2019. Volumes for October and November have also been good at over three million tonnes.

Dividend paymaster

If you are an investor who likes passive income, then CNR might be worth considering, CNR has declared a dividend of $0.57 for the third quarter.

Companies with consistently growing earnings are usually great dividend stocks. CNR reported a modest 4.4% increase in its earnings over the past five years. It has been paying dividends for two-and-a-half decades. In the last 12 months, it has rewarded its shareholders with a total shareholder return of 20%. It has experienced a dividend growth of 16.5% in the last five years which is quite impressive.

A railway stock is always good for the portfolio

CNR transport over $250 billion worth of freight every year comprising automotive components, chemicals, crude oil, and wheat, and so on. As world economies slowly return back to normal, CNR will only see an increase in freight volume. As grain volume recovers, it is expected that its other segments will see an increase too.

The stock is currently trading at $139.94. Its Q4 results shouldn't disappoint investors. Adding CNR to your portfolio for the long term can be an excellent defensive strategy.

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Author
araghunath