Invest Like Warren Buffett With This Canadian Railroad Growth Stock

Description

As far as companies that meet the Warren Buffett standard, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is one of the greatest such companies in Canada.

Accordingly, CN is a top pick of mine for those with a long investing time horizon for the following reasons.

Investor base built on long-term investors

The largest shareholder of CN is **Cascadia Investments**, which is tied to Bill Gates's endowment foundation. The investment time frame for such a fund is essentially forever.

Railroads have attracted Warren Buffett-style investors for decades. This won't change. Buying into a stock with stable ownership and low volatility is beneficial, particularly if one expects a market correction on the horizon.

Business model one of the best for long-term investors

Railroads are essential infrastructure and generate a tremendous amount of economic activity for Canada and the United States. This mode of transportation continues to be the most efficient and environmentally friendly way to ship large loads of commodities. This will not change over time. Additionally, the fact that railroads are essential means CN's cash flows are extremely safe and reliable.

Railcars will continue to be going down the tracks decades from now. This is a low-tech industry that can't be touched by innovation elsewhere. That said, CN has shown the ability to innovate with new technologies to improve fuel efficiency and the company's carbon footprint.

CN operates in a duopoly in Canada and an oligopoly in North America.

Fundamentals look excellent right now

Fundamentally, CN is reasonably valued today. This company trades at just shy of 30 times earnings — a decent valuation for this railroad. Given the aforementioned cash flow stability and defensiveness investors get, this stock is priced correctly right now.

CN has an operating margin near 40% and has improved its margins over time. Technological improvements and more efficient engines have been key. Additionally, pricing increases over the long term are not out of the question. Given the pricing power of CN due to its market position, I expect this railroad to maintain or improve these margins over the long term.

CN has a small but growing dividend yield. There remains lots of room for dividend increases over the long term. CN's payout ratio remains less than 50%, and I like the dividend-growth potential with this stock, particularly as a long-term buy and hold opportunity.

Bottom line

Until e-commerce companies find a way to fly tonnes of commodities at a reasonable price, railroads will remain essential. Indeed, the focus on environmental, social, and governance trends by investors makes companies like CN are great picks in this regard. I expect 2021 to be a year in which valuations come back to reality somewhat. In this context, the downside risk with a stock like CN is limited. The company's cash flows are essentially recession-proof. In fact, in a recessionary environment, railroads and other similar businesses could see an influx of capital — the likes of which we haven't seen in a while.

For defensive investors looking to invest like Warren Buffett, loading up on railroads is a great idea. These companies don't disappoint over the very long term. If one wants to bet on the strength of the North American economy, CN is a great way to play a long-term recovery.

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