



Why This Railroad Stock Suits Every Portfolio

Description

Railroad stocks are some of the best long-term investments you can add to your portfolio. Railroads are some of the most defensive picks on the market. Adding to that, railroads are also known for providing a growing income source. But which railroad stock should you consider buying?

Today, let's take a look at **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)).

The appeal of a railroad stock

What exactly makes railroad stocks such as Canadian National so appealing? There are several compelling reasons to consider, but it ultimately comes down to freight.

Railroads operate massive networks that span thousands of kilometres across the continent. In the case of Canadian National, the railroad operates one of the largest networks on the continent. Incredibly, Canadian National's network spans over 32,000 kilometres in length from coast to coast and down through the U.S. Midwest to the Gulf region. This makes Canadian National the only railroad on the continent that has direct access to three separate coasts.

The importance of access can't be understated. Keep in mind that railroad networks were largely built well before the surrounding communities around them were. To even consider a would-be competitor emerging to challenge Canadian National's network would be nearly impossible. That competitor would be burdened with decades of construction and billions in costs.

The same could be said about potential mergers. Following a series of mergers in the 90s, strict criteria were applied for approving any mergers relating to large railroads. In fact, Canadian National recently had its own proposed acquisition of a U.S. railroad turned down.

Canadian National's enviable network is important because of the sheer volume and types of freight hauled. Freight consists of everything from automotive parts and raw materials to wheat, crude oil, and finished products.

In total, the railroad hauls upwards of \$250 billion worth of freight each year. This factor alone makes the railroad stock an essential part of the entire North American economy.

Strong results; growing income producer

Canadian National reported results for the third quarter last week, and the results were, in a word, *impressive*. During the quarter, Canadian National saw revenue surge \$182 million to \$3,591 million. Additionally, diluted EPS saw a whopping 72% increase during the quarter, coming in at \$2.37 per diluted share.

Finally, note that the results were reflective to the end of September. The impact of the inflationary costs we've seen in recent weeks may still trickle to Canadian National in the next quarter. In other words, the great results from this past quarter could be a preamble to further gains in future quarters.

Turning to income, Canadian National provides investors with a quarterly dividend that works out to a yield of 1.47%. That may not sound like a superb income-producing stock, at least initially, as there are other [better-paying yields](#) to be found.

Fortunately, there is an overlooked aspect to Canadian National's dividend. Once prospective investors factor in growth, the potential upside over the past decade is in double-digit territory.

Even better, Canadian National has an established precedent of providing handsome annual upticks to that dividend going back over a decade. If the existing cadence continues, prospective investors can expect a juicy hike sometime early next year.

Final thoughts: Should you buy this railroad stock?

Canadian National boasts a history of solid earnings, a [growing dividend](#), and arguably has one of the largest defensive moats on the market. What's more to love? In my opinion, Canadian National is a great railroad stock to buy now and hold for decades.

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