



This Is a Great Time to Buy Canadian National Railway (TSX:CNR)

Description

Railroad stocks are some of the [best-kept secrets](#) for defensive investors. It's also a great time to buy railroad stock too. Let's try to break down all of the reasons why your portfolio needs a railroad stock, which, today, is **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)).

A solid impenetrable moat

One of the most deceiving aspects of a railroad is also its biggest strength. Railroads are often stereotyped as being relics from the last century. That view falsely sees railroads as no longer necessary, as air and truck freight can transport goods quicker over longer distances.

The truth is that railroads are not only still needed, but demand continues to rise. Just on volume alone, each rail car is the equivalent of several freight trucks. Keeping that in mind, a single freight train can haul the freight equivalent of over 100 trucks.

In short, rail still constitutes a massive part of all North American freight. Now, in the case of Canadian National, the railroad operates one of the largest rail networks on the continent. That network extends across Canada and into the U.S., reaching the Gulf coast. From a sheer value standpoint, Canadian National hauls over \$250 billion in goods each year.

Those goods can be anything from automotive components and raw materials to wheat, chemicals, and crude oil. Each train is diversified to hold a variety of different freight.

Since the rail network was established, countless communities and cities have emerged around those tracks. This provides a physical moat that defers any would-be competitor from emerging in Canadian National's realm. For that to happen, the land acquisition costs would be astronomical, regulatory approvals would take years, and construction costs would be well into the tens of billions, if not more.

A changing sign of the times

One of the things that I absolutely love about Canadian National is how it continues to innovate and improve. Several years ago, Canadian National focused on becoming more efficient. This was done through a combination of signal and track upgrades as well as upgrades to intermodal terminals.

Now, that focus is turning to become more sustainable. Railroads are already more fuel efficient than truck freight, but there's still room for improvement. That improvement came earlier this month when Canadian National purchased a new unique locomotive: a battery-electric freight locomotive.

The new locomotive represents an opportunity for Canadian National to start shifting away from its diesel-operated fleet of locomotives to something more efficient. By way of example, the battery technology could be used to reduce fuel consumption by as much as a third.

Canadian National already boasts being the most efficient railroad on the continent. Despite using 15% less locomotive fuel per gross ton mile than its peers, the railroad is looking for further innovation. This new battery initiative could be just the start, making it a great time to buy Canadian National.

Coincidentally, the railroad also noted last week its pledge to reach net-zero carbon emissions by 2050. Canadian National is the first railroad to make that pledge.

You can earn a handsome income, too

Canadian National offers investors a tasty quarterly dividend. The payout current provides a yield of 1.51%, which isn't exactly the [highest-paying yield](#) on the market. Where Canadian National does, however, excel is in providing annual or better bumps to that dividend.

Those dividend hikes, along with strong growth, have driven the CAGR up well into double-digit territory over the past decade. Oh, and speaking of dividend hikes, Canadian National has an established precedent of providing those annual upticks going back over a decade.

In other words, Canadian National is a great long-term investment that should be a core part of any well-diversified portfolio. In my opinion, it's a great time to buy Canadian National.

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