1 Top TSX Railway Stock Beginners Should Buy and Hold Forever

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart, and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good, undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, wide economic moats, solid financial ratios, and good management.

Canadian National Railway

My beginner stock pick today is **Canadian National Railway** (TSX:CNR)(NYSE:CNI). CNR has operated a network of 19,500 route miles of track spanning Canada and the United States since 1919. These railways are the artery system of our economy and are absolutely vital.

Canada's supply chains depend on CNR's ability to move goods cheaply and efficiently across the country. As a result of this dependency, CNR enjoys a strong wide economic moat, with little fear of disruption. It operates in a virtual duopoly with just one other major competitor.

As a result, CNR enjoys a very strong operating margin of 44.39% and profit margin of 33.79%, with return on equity of 23.08% and return on assets of 8.71%. These are excellent financial ratios that point to the strength of CNR's operations and management.

Share buybacks, stock splits, and other corporate actions that reward investors have long been a mainstay for CNR. The company has paid out and increased dividends for over 25 consecutive years (Dividend Aristocrat) and has beaten the market since going public.

Valuation

CNR is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, CNR is extending gains since Monday and is trading at $156.86, which is near the 52-week high of $171.48. In the current fiscal quarter, CNR’s 52-week low is $125. This is useful to know, because it gives us a sense of where the bottom of the price range may be if there is a correction.

CNR currently has a market cap of $109.39 billion with approximately 38.81 billion shares outstanding. This places it among the top 10 largest stocks listed on the TSX. From this, we can calculate an enterprise value of $121.07 billion, with an enterprise value-to-EBITDA ratio of 14.5, which is similar to sector peers.

For the past 12 months, the price-to-earnings ratio of CNR was 23.2, with a price-to-free cash flow ratio of 26.94, price-to-book ratio of 5.05, price-to-sales ratio of 7.61, and book value per share of approximately $30.56. Based on these figures, CNR’s current share price appears to be slightly overvalued.

CNR is currently covered by a total of 21 equity analysts. Of them, 13 have issued a “buy” rating, zero have issued a “sell” rating, and eight have issued a “hold” rating. Having a majority of equity analysts issue “buy” ratings is generally a bullish sign, as it indicates strong institutional interest.

CNR had a Graham number of $67.63 for the last 12 months; a Graham number is a measure of a stock’s upper limit intrinsic value based. Generally, if the stock price is below its Graham number, it is considered to be undervalued and potentially worth investing in. In this case, CNR does not appear to be undervalued.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position in CNR if they have the capital. Over the next 10-20 years, your entry price won’t matter as much if CNR continues its strong track record of growth and profitability. Consistently buying shares of CNR, especially if the market corrects, can be a great way to lock in a low cost basis.

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