Choo-Choo! CN Railway Stock Is Ready to Rock

Description

Canadian National Railway (TSX:CNR) is one of Canada's most reliable dividend stocks. It has a 1.8% dividend yield, which is relatively low, but it has raised its dividend every year for the last 24 years . Over the last 10 years, the growth rate has been 15% annualized. So, CNR has better-than-average dividend growth.

default watermark

From a dividend investor's perspective, CN Railway is a solid bet. The yield isn't too high, but the growth is phenomenal, and the payout ratio (dividends divided by earnings) is only 36.6%. And CN Railway isn't appealing only as a dividend play. Even if it didn't pay a dividend, the stock would be a solid bet, as the rail industry is set to grow modestly, and CN Railway has a solid competitive position within the industry.

Why CN Railway is well positioned here

CN Railway is well positioned for two reasons:

1. The railroad industry is very well adapted to current economic conditions.
2. CN Railway has a strong competitive advantage compared to other railroads.

Each of these points is worth exploring in detail.

First, the railroad industry is well positioned, because railroads transport many of the goods that are in demand this year. You may have heard about shortages in oil, grain, lumber, fertilizer, and other such goods. There have indeed been shortages in all of these product categories — specifically, shortages in shipments coming out of Europe. The supply within North America is as steady as it has ever been, so North American railroads stand to benefit from increased volume caused by higher demand for domestic commodities.

Second, CN Railway has advantages compared to other railroads, because it touches three North American coasts. This gives it a natural advantage in certain shipping routes. Let's say you wanted to ship something from British Columbia to New Orleans. The natural railway for that is CN Railway, because it goes to both of those areas. So, CN Railway has a competitive advantage in long distance North American shipping.

Recent earnings

In its most recent quarter, CN Railway delivered $2.13 in adjusted earnings per share (EPS) and $4.51 billion in revenue. Both of these figures were all-time highs for the company, and ahead of what analysts were expecting. On the con side, earnings were held back somewhat by higher fuel costs. The higher fuel prices go, the more money railroad companies have to spend on moving trains, so high oil prices (which translate to higher fuel prices) can eat into their margins.

One risk to watch out for

As we've seen, CN Railway is a solid company that is beating analyst expectations and is well positioned for the years ahead. These are all good things. Nevertheless, there is one risk investors will want to pay attention to: fuel costs. As mentioned previously, the higher oil prices go, the more money railroads have to spend on fuel. CNR is no different from any other railroad in this regard. The company does have some room to raise its transportation fees in response to higher costs, but in the short term, fuel prices can be an issue. To me, they're not a deal-breaking issue, but they may be an issue if you have a short time horizon and are hoping to make a quick buck off a good earnings release.

default watermark

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/09/30
Date Created
2022/10/31
Author
andrewbutton

default watermark

default watermark