Canadian National vs. Canadian Pacific: Which Should You Buy?

Description

It's been a great year for both **Canadian National Railway** (TSX: CNR)(NYSE: CNI) and **Canadian Pacific Railway** (TSX: CP)(NYSE: CP) — over the past 12 months, the two companies' shares have returned 38% and 59%, respectively.

Is there any room left for either of these stocks to run? Below we take a look at each company.

Canadian National Railway

For years, Canadian National has been the most efficient railway company in North America, with an operating ratio, which measures expenses as a percentage of revenue, consistently below 65%. As a result, the company and its shareholders have done very well over the past 10 years as rail traffic has grown; the shares have returned nearly 18% per year over the past decade.

Looking ahead, the company's main asset is its network, again the best in North America. It's the only network that can deliver cargo to all three coasts — the Pacific, the Atlantic, and the Gulf. This gives its customers increased flexibility and the ability to ship to wherever they'll get the best price.

So that leaves the all-important question of whether the shares are overpriced. Well, in 2013 Canadian National made $3.09 per share in net income and $1.86 per share in free cash flow. Those aren't big numbers for a $68 stock. As a result, the shares only yield 1.5%. If you're looking to hit a home run, or if you're looking for a juicy dividend, this railway company isn't for you. However, if you're looking for a strong, well-managed company with a bright future, it might be worth paying up.

Canadian Pacific Railway

For years, Canadian Pacific had been the laggard of the North American rails, with an operating ratio above 80%. Then came activist investor Bill Ackman, who succeeded in installing Hunter Harrison as the new CEO. Since then, Mr. Harrison has made numerous improvements, and the company is much more efficient. The company has also benefited from the same industry tailwinds as its competitor, and as a result its shares have returned over 50% per year for the last three years.

Unfortunately, Canadian Pacific's shares are even more expensive than Canadian National's; last year it made about $5 per share in income and $4 per share in free cash flow. Canadian Pacific trades at $200 per share. As a result, the shares yield only 0.7%.

At this point, if you had to choose one of these companies, Canadian National would certainly be the safer option. It's no bargain by any means, but if you want a company of that quality, you have to be willing to pay the price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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bensinclair