2 Reasons to Avoid Canadian National Railway Company, and 1 Stock to Buy Instead

Description

Canadian National Railway Company (TSX: CNR)(NYSE: CNI) is not only one of Canada's most popular stocks, it's a company that Canada can truly be proud of.

For many years, CN Rail has been the best-in-class operator, not just in Canada, but also in North America. Its safety performance is better than ever, something always top of mind in this industry.

And its shares have performed very nicely, up 127% in the last three years. You'll rarely hear any arguments against holding the stock.

But that is exactly what you'll find here — below are two reasons to avoid shares of CN Rail. And then, we'll make the case for a stock you should own instead.

Reasons to avoid CN Rail

1. Limited growth prospects

Recently, growth at CN Rail has been quite strong, with revenue increasing by 43% from 2009 to 2013. But one must remember that this came at a time when the North American economy was recovering from its worst economic crisis in 70 years. There are other reasons not to like CN Rail's growth prospects going forward.

One of them is government regulation. To provide an example, the Canadian government recently introduced new legislation requiring the rails to ship over 500,000 tons of grain per week through November 29 or face stiff fines. Looking ahead, there will also likely be increased regulation surrounding crude-by-rail, in an effort to improve safety. The important thing is that politicians don't seem to have a problem picking on the rails, something that could hamper growth in many lines of business for many years.

Another is capital intensity. For example, last year revenue at CN Rail grew by about $650 million, but capital expenditures totaled $2 billion. Such a comparison may be unfair, since these expenditures should pay dividends over many years. But you must remember that even if CN is able to increase revenue, its growth will be far from free.

2. A high stock price

Secondly, CN is a popular stock. And this shows up in its share price, which is currently about 24 times earnings. Even worse, the shares trade at over 30 times free cash flow. As a result, the dividend yield is a paltry 1.25%.

1 stock to own instead: Fortis Inc

If you're thinking of owning CN Rail, you're clearly looking for a best-in-class operator in a stable industry. And you're looking for a company you can count on for decades, not just years.

Fortis Inc (TSX: FTS) checks these boxes as well. The company is Canada's largest investor-owned distribution utility, and also one of the most stable companies in the country overall. The biggest reason is quite simple: we all need to keep the lights on, even when the economy is faring poorly.

This shows up in the company's numbers. Over the last 40+ years, Fortis has raised its dividend every single year, something very few companies have been able to do so consistently.

Best of all, Fortis still has a dividend yield of 3.7%, much better than what you can get with CN Rail. So you don't have to settle for a puny dividend if you want to own a consistent performer.

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