2 Big Reasons to Buy Canadian National Railway Company Over Canadian Pacific Railway Ltd.

Description

According to reports from *The Wall Street Journal*, U.S. railway **CSX Corporation** (NYSE: CSX) has rejected a takeover offer from **Canadian Pacific Railway Limited** (TSX: CP)(NYSE: CP). Even if CSX was more open to the idea, regulators would likely block the deal – with only six major carriers in North America, the industry is already very concentrated.

That being said, CP's takeover attempt is a perfect reminder why we should pass on the company, and buy **Canadian National Railway Company** (TSX: CNR)(NYSE: CNI) instead. Below are two big reasons.

1. The network

No matter how you look at it, CN Rail's track network is superior to CP's. The CSX takeover offer was an attempt to bridge that gap.

To illustrate, CN has the only track network that reaches all three coasts – the West Coast, East Coast, and Gulf Coast. This is a tremendous advantage, especially when shipping crude by rail. It means that no other railway is needed to get a tank car from Alberta to Louisiana, and delays from switching track networks can be avoided. This is critical, since tank cars are in short supply, and customers want them used as efficiently as possible.

CN is also able to bypass the congested Chicago hub, thanks to its purchase of Elgin, Joliet and Eastern Railway, completed in early 2009.

Meanwhile, CP's network leaves much to be desired. Not only does it fail to reach the Gulf Coast, but it doesn't reach the East Coast either. So when shipping crude oil, the company must switch the tank cars onto another carrier's network, wasting valuable time. Further time is wasted at the Chicago hub.

A CSX merger would solve both of these issues. But as mentioned, the attempt faces an uphill battle. And even if it is successful, it will take a long time. CN's advantage will remain in place for the time being.

2. Price

The rise of CP's share price has been nothing short of remarkable. Despite dropping by nearly 15% in the last couple of weeks, the stock is up 57% in the last year, and 322% in the last five years.

As a result, the company is very pricey by almost any standard, trading at 36 times earnings, and over 40 times free cash flow. With shares this expensive, takeovers become much more tempting. After all, if you can beef up your network, and don't have to give up too many shares, there's very little downside to a deal.

But at the same time, this story reminds us that CP is very expensive. Especially for a company with an inadequate track network. You're better off buying CN shares.

The free report below covers CN Rail in greater depth, and also reveals four other Canadian stocks you should consider adding to your portfolio.

CATEGORY

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TICKERS GLOBAL

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