



## Which Is the Better Dividend Investment: Canadian National Railway Company or Canadian Pacific Railway Limited?

### Description

Railroads are your ultimate “forever asset.”

Over the next 100 years, we’re going to have more people living in this country. And over time, they’re going to demand an ever greater quantity of goods. Because rail is the cheapest method of moving freight, the industry will play a key role in shipping all of those products.

For investors, that means firms like the **Canadian National Railway Company** ([TSX: CNR](#))([NYSE: CNI](#)) and **Canadian Pacific Railway Limited** ([TSX: CP](#))([NYSE: CP](#)) will be cranking out profits and dividends for decades to come. That’s why I have frequently touted both names here on The Motley Fool Canada.

But what if we could own only one of these stocks? How could you possibly choose between these two wonderful businesses? Well, today we’re tackling the question, “Which railroad is a better dividend stock?”

Let’s see how these two income champions stack up against one another in seven important categories.

#### 1. Dividend history

Railroad investors have always been able to count on a dividend cheque arriving in their mailbox each quarter. CP has paid shareholders every year since being spun off in 2001. CN, however, has been delivering dividends for just a little bit longer. The firm hasn’t skipped a payment since 1996. *Winner: Canadian National.*

#### 2. Dividend safety

Over the next century, there will probably be 15 or so bad years. We want to make sure our dividends keep rolling in through wars, recessions, and financial crises. Thankfully, both companies pay out less than 30% of earnings to shareholders. This gives them plenty of financial wiggle room if business

sours. That said, CP has the most conservative payout ratio of these two companies, which gives it a slight edge in this department. *Winner: Canadian Pacific.*

### 3. Dividend yield

Neither stock boasts big payouts. However, one company is your clear choice for current income. CN yields 1.2%, which is double CP's 0.6% payout. *Winner: Canadian National.*

### 4. Dividend growth

Dividend hikes don't just put more cash in your pocket. They also send a strong signal of confidence in the company's future. Over the past decade, CP has increased its dividend at a 10.4% annual clip. That's not too shabby. However, CN has raised its dividend by about 17.7% per year during that same period. *Winner: Canadian National.*

### 5. Earnings growth

Companies need to grow earnings to fund future dividend hikes. Based on analyst estimates compiled by Reuters, CN's earnings per share, or EPS, are expected to grow at a 5.0% compounded annual rate over the next five years. However, thanks to a slew of changes brought in by the new management team, CP is expected to post 9.8% annual EPS growth over that same time. *Winner: Canadian Pacific.*

### 6. Management

In the railroad business, we have one simple metric to determine how well executives are running a company: the operating ratio. This is defined as a company's operating expenses as a percentage of revenue, and the lower the better. Last quarter, CP's operating ratio fell to a record low of 65.1%, a 6.8% improvement from a year ago. However, CN remains the more efficient business, with an operating ratio of just 58.8%. *Winner: Canadian National.*

### 7. Valuation

In spite of the fact that CP is the inferior operator, the market is willing to pay a premium for the stock. The company trades at a hearty 22 times next year's earnings, giving management credit for a lot of improvements that haven't yet occurred. By comparison, CN trades at a more modest 19 forward earnings multiple. *Winner: Canadian National.*

### The verdict

Both of these companies are great dividend stocks. But if pressed, I lean slightly towards Canadian National. CP is priced as if the reorganization has been completed. If all of the potential gains have already been factored into CP's share price, I would prefer to own a top-tier operator like CN.

### CATEGORY

1. Dividend Stocks
2. 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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