



Sell Canadian Pacific Railway Limited and Buy Canadian National Railway Company

Description

Canada is dominated by two main railroad companies: **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). Both have done really well since the recession in 2009, but one has reached a point where it's just a little too good to be true.

It's my belief that you should sell Canadian Pacific and take those gains and immediately buy Canadian National Railway. It's a controversial strategy, especially since the CEO of Canadian Pacific thinks he can double the earnings for the company over the next couple of years. But based on my data, Canadian National is a better buy and a better profit generator for investors.

If you had purchased Canadian Pacific back in early 2011, it would have been considered the cheaper of the two stocks. And over those few years, you would have made an absolute killing both in the rise of the share price and from the dividends that Canadian Pacific paid (though the dividend is not as great as we would have liked).

Canadian National's fundamentals are better

Fundamentally, Canadian National is the better railroad. Canadian Pacific looks good because its CEO is aggressive about growth and it has a big time fund manager, Bill Ackman, on the board. But the fundamentals for Canadian National are just better.

First, it's cheaper than Canadian Pacific. It currently has a price-to-earnings ratio (P/E) of 22, which is way lower than the 33.67 P/E that Canadian Pacific has. While Canadian Pacific has a respectable forward P/E, I seriously doubt the company's ability to double its earnings over the next four years, so Canadian National is just downright cheaper.

Second, Canadian National is more efficient than Canadian Pacific, though not by much. Canadian Pacific has an operating ratio of 62%. Part of the CEO's plan to increase earnings is to decrease this ratio even further. The lower this is, the cheaper it is for the railroad to add another dollar in revenue. Unfortunately for Canadian Pacific, Canadian National has an operating ratio of 58.8%, which is the

best in the industry.

Finally, the dividend that Canadian National offers is just much better. Canadian Pacific only offers a 0.66% yield. Canadian National offers a 1.27% yield. That's nearly double what Canadian Pacific is offering.

At the end of the day, Canadian National is the better railroad to own. If you own Canadian Pacific, sell your shares and consider starting a position in Canadian National.

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)

Category

1. Investing

Date

2025/08/22

Date Created

2015/01/16

Author

jaycodon

default watermark

default watermark