Toronto-Dominion Bank vs. Canadian National Railway Company: Which Is the Best Dividend Investment?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) have experienced some volatility in the past few months and new investors are wondering if this is a good time to start a position in the stocks.

Let's take a look at the two Canadian titans to see if one deserves a place in your portfolio.

Toronto-Dominion Bank

Toronto-Dominion Bank is down 9% in the past six months and the stock is now trading close to its 12-month low. The company disappointed the market when it reported its Q4 2014 earnings in early December. At the time, management reiterated its warnings that 2015 would be challenging.

Your regular Joe Canuck has been a lending gravy train for Canada's big banks since the financial crisis, but the point will come when Canadians simply won't be able to handle more debt. The breaking point might not arrive as soon as the market expects.

Interest rates are likely to remain at current levels for at least another year, and this means the mortgage binge in major markets (other than Calgary) should continue. At the same time, lower oil and natural gas prices mean Canadians are getting a big break at the gas pump and on their heating bills. The savings can be substantial for the average family, and the extra cash could go toward paying off mortgages, buying new cars, or racking up more credit card charges. All of these are good for Toronto-Dominion's bottom line.

The Canadian market is the cash cow, but Toronto-Dominion also has a large U.S. retail operation. Competition for loans is putting pressure on net interest margins south of the border, but the U.S. economy continues to recover and Toronto-Dominion is benefitting. The recent strength in the U.S. dollar should also provide a boost to earnings this year.

TD's earnings might come in higher than expected in the first part of this year, but investors should heed the company's warning that it might not hit its target of 7% to 10% earnings per share growth in the medium term.

Toronto-Dominion has increased the dividend by more than 50% during the past three years. The current payout of $1.88 per share yields about 3.7%.

Canadian National Railway

The oil boom has been a great source of revenue for Canadian National Railway. Western Canadian oil producers are shipping more oil by rail than ever before, and the huge expansion in hydraulic fracturing has created a large market for the transport of sand, which is a core ingredient in the shale oil extraction process.

With energy companies slashing capital programs, there is a concern that the oil-by-rail bonanza could go bust. That is unlikely to happen. In fact, the Canadian Association of Petroleum Producers expects crude-by-rail shipments to hit 700,000 barrels per day by 2016. This is a large increase over the 400,000 barrels per day that the railways likely carried at the end of 2014.

Revenues from the higher-cost shale plays could certainly slow down but demand to move oil will still be strong going forward.

The company’s other core revenue areas are all doing well. North American auto sales are very strong, grain shipments are maxed out, and the improving U.S. economy is driving growth in intermodal transport.

Canadian National Railway has also increased its dividend by 50% over the past three years. The current payout of $1.00 per share yields about 1.25%. The stock is up by more than 35% in the past 12 months.

Which should you buy?

At this point in time, Canadian National is probably a safer bet. Toronto-Dominion is a solid long-term pick, but the financial sector is out of favour right now and the stock could continue to move lower in the coming months.

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