



Which of Canada's Big 2 Railways Should You Buy Today?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) are two of the largest owners and operators of rail networks in North America. Both stocks represent attractive long-term investment opportunities today, but the laws of diversification state that we cannot own both, so let's take a closer look at each company's most recent quarterly release, their valuations, and their dividend yields to determine which stock is the better buy today.

Canadian National Railway Company

Canadian National released better-than-expected first-quarter earnings results after the market closed on April 20, but its stock has responded by falling about 10% in the weeks since. Here's a summary of 10 the most important statistics from the report compared with the year-ago period:

1. Adjusted net income increased 27.8% to \$704 million
2. Adjusted earnings per share increased 30.3% to \$0.86
3. Revenue increased 15% to \$3.10 billion
4. Total carloads increased 9.2% to 1.35 million
5. Total revenue per carload increased 5.9% to \$2,203
6. Freight rail revenues increased 15.6% to \$2.98 billion
7. Operating income increased 29.6% to \$1.06 billion
8. Operating ratio improved 390 basis points to 65.7%
9. Net cash provided by operating activities increased 53.8% to \$992 million
10. Free cash flow increased 5.5% to \$521 million

At today's levels Canadian National's stock trades at 17.6 times fiscal 2015's estimated earnings per share of \$4.25 and 15.7 times fiscal 2016's estimated earnings per share of \$4.77, both of which are inexpensive compared with the industry average price-to-earnings multiple of 24.5.

In addition, Canadian National pays a quarterly dividend of \$0.3125 per share, or \$1.25 per share annually, giving its stock a 1.7% yield at current levels. The company has also increased its dividend

for 19 consecutive years, and its increased free cash flow could allow this streak to continue for many more years.

Canadian Pacific Railway Limited

Canadian Pacific announced better-than-expected first-quarter earnings results before the market opened on April 21, but its stock has responded by falling over 9% in the weeks since. Here's a summary of the same 10 statistics we pulled from Canadian National's report compared with the year-ago period:

1. Adjusted net income increased 49.4% to an all-time quarterly high of \$375 million
2. Adjusted earnings per share increased 59.2% to \$2.26
3. Revenue increased 10.3% to \$1.67 billion
4. Total carloads increased 3.9% to 642,000
5. Total revenue per carload increased 6.5% to \$2,541
6. Freight rail revenues increased 10.6% to \$1.63 billion
7. Operating income increased 44.7% to \$612 million
8. Operating ratio improved 880 basis points to a first-quarter record 63.2%
9. Net cash provided by operating activities increased 93.4% to \$555 million
10. Free cash flow increased 1,980% to \$312 million

At current levels, Canadian Pacific's stock trades at 19.7 times fiscal 2015's estimated earnings per share of \$10.97 and 16.7 times fiscal 2016's estimated earnings per share of \$12.90, both of which are inexpensive compared with the industry average price-to-earnings multiple of 24.5.

Additionally, Canadian Pacific pays a quarterly dividend of \$0.35 per share, or \$1.40 per share annually, giving its stock a 0.65% yield at today's levels. The company has only increased its dividend three times in the last five years, but its increased free cash flow could allow for a significant increase in the very near future.

Which stock should you buy today?

After comparing the most recent quarterly reports, valuations, and dividend yields, I think Canadian National Railway represents the better long-term investment opportunity today. It posted stronger first-quarter results; its stock trades at more attractive forward valuations; and it has a higher dividend yield with a much more impressive track record of increases, so it was the clear winner in this matchup. All Foolish investors should take a closer look and strongly consider initiating positions in Canadian National today.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

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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