The Case to Buy Canadian Pacific Railway Limited Over Canadian National Railway Company

Description

It is commonly known that **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) are competing railroads. Both are excellent companies as we'll see in their past returns later on in the article.

However, investors looking to buy either one aren't looking for income, but growth since both companies pay a dividend of less than 2%. With that perspective, which railroad should investors buy?

First, let's take a look at their past performance.

Past performance

Here are the total returns with dividends reinvested in various periods for the two railroads. It should shed some light on which company has been the better choice for total returns. In fact, Canadian Pacific has beaten Canadian National in three of the four periods, and the one-year performance was a close battle.

Railroad	1-Year	3-Yr	5-Yr	10-Yr
Canadian Pacific	13.7%	40%	29%	16.7%
Canadian National	13.8%	21.9%	20.3%	15.3%

Wait; let's take a step back and think about why Canadian Pacific might give higher returns. Usually, higher returns implies higher risk. Does this apply to Canadian Pacific in this case?

Quality, yield, and debt

Canadian Pacific has a lower credit rating than Canadian National. Additionally, Canadian Pacific has a higher debt percentage as well. We all know that excessive debt can't do any good for any company. However, it looks like both railroads have sustainable debt levels.

Canadian Pacific's yield is below 1%. Canadian National's is not great either, but at least is much more palatable at 1.7%. As mentioned before, investors wouldn't buy the railroads for current income, but for growth.

Railroad	Price	Yield	S&P Credit Rating	Debt/Cap
Canadian Pacific	$204.9	0.7%	BBB+	53%
Canadian National	$73.80	1.7%	A	35%

In conclusion

If you think about it, there's one more reason why Canadian Pacific should outperform Canadian National. Canadian Pacific is a much smaller company. It has a market cap of close to 34.1 billion, while Canadian National's is about 59.9 billion.

It's much easier for a $1 billion company to grow into a $2 billion company than for a $50 billion company to grow into a $100 billion company, if they were growing the same percentage.

As a result, from a total return perspective, if investors don't mind taking on more risk by investing in a company with lower quality, lower yield, and higher debt levels, Canadian Pacific should be the ticket to higher double-digit returns than Canadian National.

Remember, the points above are comparatively speaking only. For example, the credit rating of BBB+ is considered investable grade. So, when it stands alone, Canadian Pacific is an investable company. And today you've reduced your risk after its 21% dip from its 52-week high of $247 to its current price of $205.

Still, if I were to invest in Canadian Pacific, I would put it in non-registered or taxable account. So, if anything bad happened and I had no choice but to take capital loss, I could still write it off. Seriously though, there are much worse companies one could invest in, and Canadian Pacific is certainly not one of them.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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