



## 3 Reasons to Dump Canadian Pacific Railway Limited and Buy Canadian National Railway Company

### Description

I love railroad stocks. They have a tremendously wide moat, which means that new competitors are very improbable. They are responsible for a significant amount of the bulk shipments around the country. And they can oftentimes pay a pretty nice dividend, rewarding investors for putting their money into the company.

In Canada, there are two primary railroads that are worth looking at. They are **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). Both of them have similar moats and, for the most part, are able to operate without too much concern. However, it is my belief that if you own Canadian Pacific stock and you're profitable, that you should sell them and reinvest that money into Canadian National Railway Company.

Here are a few reasons to support that argument.

#### 1. Canadian Pacific is overpriced

When comparing the two railroads, it becomes painfully clear that one of them is far more expensive than the other. If you look at its P/E ratio, the company is sporting a 23.41. This is significantly higher than the P/E ratio of Canadian National, which is only 18.66.

Now, I understand why Canadian Pacific's ratio is so high. Last year, the company was in the news a lot because it had doubled its earnings per share and was planning to do that again in the following years. And while that sounds really great on paper, it's not a realistic expectation. The company got to where it is by cutting, but after a while, there's nothing left to cut.

I don't believe the company is worth the amount of money it is currently trading for. If you bought when it was more reasonably priced, you're probably sitting on a really great profit. That could be seed money for a new investment in Canadian National.

#### 2. Canadian National is transcontinental

In the United States railroads are split into eastern and western companies. If you're an eastern company, you don't tend to cross over to the west and vice versa with western companies. What this means is that if you are shipping something from Richmond, Virginia to San Francisco, California, you'll need to rely on two separate companies.

In Canada, this isn't the case. Canadian National goes from the eastern-most parts of Canada all the way to the west coast. But it gets better. It also goes north and south, all the way down to the Gulf of Mexico.

Unfortunately for Canadian Pacific, this just isn't the case. It has tried to become a transcontinental railroad by attempting to merge with American railroads, but since there are serious regulatory hurdles there, it's not likely to occur.

### 3. Dividends

Canadian Pacific just does not reward its investors all that generously. It pays a \$1.41 dividend split up into quarterly \$0.35 payments. This means you're only getting a tiny 0.67% yield. While something is better than nothing, I really don't want to be making that little bit of money.

Canadian National, on the other hand, pays a 1.69% yield. That means investors are getting \$1.25/share split up into four quarterly payments. To put that into perspective, you're only making \$0.16 less a share by owning Canadian National than you would if you owned Canadian Pacific, but you can own nearly three shares of Canadian National for the price of one Canadian Pacific share.

### Sell Canadian Pacific and buy Canadian National

The moral of the story is that Canadian National just the better company. I have a lot of respect for what the CEO of Canadian Pacific has done, but we're in this business to make money. And in my eyes, Canadian National is the way to go. So, dump your Canadian Pacific shares and buy Canadian National. Immediately, you'll see a significant boost in your quarterly income.

### CATEGORY

1. Investing

### POST TAG

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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### Author

jaycodon

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