3 Reasons to Buy TransCanada Corporation Over Canadian Pacific Railway Limited

Description

Over the past five years, a new rivalry has emerged between pipeline operators and railway companies. Both have taken advantage of a massive surge in energy production, and are competing to move that energy across North America.

But on which side should investors be placing their bets? Well, it's becoming increasingly clear that pipeline operators are the better bet.

We take a closer look by showing three reasons why you should buy **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) over **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP).

1. Pipelines are more effective than rail

The growth of crude by rail has been no accident. With energy output skyrocketing, there simply wasn't enough pipeline capacity, forcing producers to use the rails.

Crude by rail also has some nice advantages over pipelines. It offers more flexibility on volume and location. It doesn't require any diluent when transporting heavy oil.

But there are two big reasons why pipelines are far more preferable to rail. The first is cost. Shipping oil by rail can easily cost more than $20 per barrel, while shipping on a pipeline can cost below $10. Secondly, pipelines are far safer. There have been countless crude-by-rail accidents—the most serious of them killing 47 people in Lac Mégantic—since the last pipeline burst.

Now that oil prices have fallen so much, drilling has fallen too. And with lower drilling rates, pipeline capacity isn't so much of a problem anymore. So, crude by rail stands to be the big loser. That's bad news for CP.

2. TransCanada has more growth opportunities

Even with fewer drilling rigs in the ground, TransCanada still has $46 billion worth of commercially secured growth projects, which should allow the dividend to grow by 8% for at least the next couple of years.

CP's growth prospects are more limited. The company did have ambitious growth plans, but that was before the slowdown in crude by rail. Profits have been rising impressively, but that's mainly due to much-needed efficiency improvements. And costs can only be cut so much.

3. TransCanada is far cheaper

TransCanada shares have gained 23% over the past three years, but are still very reasonably priced. For that reason, its dividend yields more than 4%. That's not bad for a company growing its payout by 7-8% per year.

CP is far more expensive. Even though its shares have fallen by 15% in the past three months, the dividend still yields less than 0.7%. Investors seem to be counting on much growth at CP. But given the future of crude by rail, those hopes may soon be dashed.

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3. TSX:CP (Canadian Pacific Railway)
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