Which Is the Better Investment: Canadian National Railway Company or Canadian Pacific Railway Limited?

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) are the two largest railway companies in Canada, with expansive networks reaching coast to coast and into key U.S. markets. Which one should be in your portfolio?

Let's take a look at the case for both.

The case for Canadian National

Montreal-based Canadian National is currently trading over $79, off a 52-week high of $88.89. Year-to-date, the stock is flat at 0.5%. Expanding this out over the past year, the performance improves to nearly 9%. The five-year return on Canadian National is an impressive 410%.

Canadian National beat expectations during the most recent quarter, recording revenues of $3.1 billion. Net income for the quarter was $886 million, or $1.10 per diluted share. Canadian National's quarterly dividend is $0.31, which is now approaching an impressive 20 consecutive years of increases. This alone makes Canadian National a great long-term option for those investors seeking income.

Canadian National has potential deals on the horizon that could further enhance its candidacy for inclusion in your portfolio. Work is being done to secure a partnership with JB Hunt, one of the larger U.S. truck lines. Additionally, Canadian National is the exclusive railway for the Port of Prince Rupert, which is now under the new ownership of DP World of Dubai. Both of these partnerships should provide increased revenue opportunities in the years ahead.

The case for Canadian Pacific

Calgary-based Canadian Pacific is trading at $195, with the 52-week high at $247.56. Year-to-date the stock is down over 12%, and over the course of the past year this is only slightly better at -6%. Longer term, the five-year figure is close to 230%.

In the most recent quarter, Canadian Pacific reported its highest quarterly revenue of $1.65 billion. Net income was also at an all-time quarterly high of $390 million, or $2.36 per diluted share, an improvement of 12%. Canadian Pacific's quarterly dividend comes in at $0.35, which has also steadily increased over the years.

Canadian Pacific revised its initial forecast for the year, now expecting a more conservative revenue growth of 2-3%, which can be attributed to lower freight revenues and a sluggish economy.

The better investment is…

Railroad companies are far and few to choose from, and the investment needed to build and operate a rail network makes it very prohibitive that another large national competitor can emerge in this field.

While lower freight volumes of the past quarter have reduced the value of both these stocks in the short term, either of these companies represents a great option for investors looking for a railroad stock.

In my opinion, Canadian National is the better option between the two. The potential revenue associated with being the exclusive carrier for the fastest growing port for transpacific traffic in North America and 20 years of growing dividends is just too tempting to pass.

CATEGORY

1. Investing

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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