Which Is a Better Investment: Canadian National Railway Company vs. Toronto-Dominion Bank

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are regular favourites with Canadian investors.

Let's take a look at both to see if one is a better bet right now.

Canadian National Railway Company

CN is one of those rare companies that holds a dominant position in its industry and runs little risk of new entrants spoiling the party.

Canada's largest railway just reported strong Q2 2015 net income of $1.10 per share, an nice increase over the $1.03 it earned in the same quarter last year. Robust growth in the energy sector has driven a surge in profits over the past few years, but that gravy train is starting to slow down. Other segments, such as automobiles and forestry products, continue to do well and are picking up the slack.

Management runs a tight ship and the company is often praised for its low operating ratio, which came in at an impressive 56.4% in the second quarter. This is especially important when revenues start to flatten out.

The company has a strong history of dividend growth and share buybacks. Earlier this year CN increased its dividend by 25% and plans to increase the payout ratio to 35%, so shareholders can look forward to pocketing more cash. During the second quarter the company spent more than $400 million to repurchase and cancel stock. This is great for the remaining shareholders because they now own an even larger piece of the pie.

Management's strong focus on cost controls and a shareholder-first approach to deploying free cash is a big reason why investors have enjoyed an average annualized return of 17% over the past 10 years.

Toronto-Dominion Bank

TD is known for its strong Canadian retail operations, but the company also runs an impressive business south of the border.

As the Canadian economy works its way through a rough patch, TD’s U.S. operations act as a nice hedge, especially when US$1.00 in earnings translates into CAD$1.30.

The company continues to deliver solid results despite market headwinds, and management has launched a restructuring program aimed at improving efficiency across the board.

As oil prices continue to slide and the broader economy weakens, analysts worry Canadian banks could be hit by credit losses.

TD finished Q2 with just $3.8 billion of its total loans connected to the oil and gas sector. That represents less than 1% of its total loan book. It also has $260 billion in Canadian residential mortgage exposure, of which 60% is insured. The loan-to-value rate on the uninsured portion is 60%. TD is very well capitalized and can easily weather a downturn in the economy or a pullback in the housing market.

TD pays a dividend of $2.04 per share that yields about 3.8%. Over the past 10 years TD’s shareholders have been rewarded with an average total return of 12% per year.

Which is a better bet?

Both Canadian National Railway and Toronto-Dominion Bank deserve to be core holdings in any long-term portfolio. If you have to pick just one, I would go with CN because its business enjoys a much wider moat.

CATEGORY

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2. Investing

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1. Editor's Choice

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
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Date
2025/08/21
Date Created
2015/08/06
Author
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