



## Should You Buy Canadian National Railway Company or Canadian Pacific Railway Limited Today?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) are the two largest owners and operators of rail networks in Canada, and both of their stocks represent attractive long-term investment opportunities today. However, the laws of diversification clearly state that we cannot buy both, so let's take a closer look at each company's earnings results in the first half of fiscal 2015, their stocks' valuations, and their dividends to determine which is the better buy today.

### Canadian National Railway Company

Canadian National's stock has fallen over 8% year-to-date, including a decline of over 5.5% since it released earnings results for its three and six-month periods ending on June 30, 2015 after the market closed on July 20. Here's a summary of 10 of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Adjusted net income increased 16.7% to \$1.63 billion
2. Adjusted diluted earnings per share increased 19.6% to \$2.01
3. Total revenues increased 7.1% to \$6.22 billion
4. Rail freight revenues increased 7% to \$5.91 billion
5. Total carloads increased 2.4% to 2.77 million
6. Total rail freight revenue per carload increased 4.5% to \$2,135
7. Operating income increased 16.7% to \$2.43 billion
8. Operating ratio improved 320 basis points to 61%
9. Net cash provided by operating activities increased 14.4% to \$2.2 billion
10. Free cash flow decreased 17.2% to \$1.05 billion

At current levels, Canadian National's stock trades at 17.4 times fiscal 2015's estimated earnings per share of \$4.21 and 15.7 times fiscal 2016's estimated earnings per share of \$4.66, both of which are inexpensive compared with the industry average price-to-earnings multiple of 23.2.

Additionally, Canadian National pays a quarterly dividend of \$0.3125 per share, or \$1.25 per share annually, giving its stock a 1.7% yield at today's levels. It is also very important to note that the company has increased its dividend for 19 consecutive years.

### **Canadian Pacific Railway Limited**

Canadian Pacific's stock has fallen over 15% year-to-date, including a decline of nearly 8% since it released earnings results for its three and six-month periods ending on June 30, 2015 before the market opened on July 21. Here's a summary of 10 of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Adjusted net income increased 25.2% to \$779 million
2. Adjusted earnings per share increased 33.5% to \$4.70
3. Total revenues increased 3.9% to \$3.32 billion
4. Rail freight revenues increased 4% to \$3.24 billion
5. Total carloads increased 0.2% to 1.31 million
6. Total revenue per carload increased 3.7% to \$2,473
7. Operating income increased 24.6% to \$1.26 billion
8. Operating ratio improved 620 basis points to 62.1%
9. Net cash provided by operating activities increased 22.3% to \$1.14 billion
10. Free cash flow decreased 9.2% to \$485 million

At today's levels, Canadian Pacific's stock trades at 18.4 times fiscal 2015's estimated earnings per share of \$10.30 and 15.8 times fiscal 2016's estimated earnings per share of \$12.06, both of which are inexpensive compared with the industry average price-to-earnings multiple of 23.2.

In addition, Canadian Pacific pays a quarterly dividend of \$0.35 per share, or \$1.40 per share annually, giving its stock a 0.7% yield at current levels. Investors should also note that the company has increased its dividend three times in the last five years.

### **Which stock is the better buy today?**

After directly comparing Canadian National and Canadian Pacific, I think Canadian National represents the better long-term investment opportunity today.

Both companies reported very strong earnings results in the first half of fiscal 2015 and both stocks trade at very attractive forward valuations, but Canadian National has a much higher dividend yield and a very impressive track record of annual dividend increases, giving it the edge in this match-up. Foolish investors should strongly consider beginning to scale in to positions today.

### **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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