



Should Investors Buy Canadian National Railway Company or Canadian Pacific Railway Limited?

Description

If investors are looking for stocks that are going to make a solid foundation to their portfolio, I believe they need to have at least one railroad in their portfolio. Because of their significant moat, they are able to generate revenue without concern of another company coming along to poach their business.

In Canada, the two-largest ones worth talking about are **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)). Both of them are great companies, but I believe Canadian National is the better option for investors for a few reasons.

Valuation

When comparing the valuation of the two companies, Canadian National is just a little bit cheaper. It trades at a P/E of 18.09 while Canadian Pacific trades at a P/E of 20.84. The good thing for Canadian Pacific is that it has dropped quite a bit over the past few months, bringing it more in line with what is an acceptable valuation. However, when looking for stocks that are priced correctly, a lower P/E is better. Even looking forward, Canadian National trades at 17.4 times the estimated EPS for 2015. Canadian Pacific trades at 18.4.

When looking for a company, you want the cheaper one so long as it remains a solid company. And Canadian National is a solid company.

Transcontinental

It amazes me that more investors don't look at the fact that Canadian National is transcontinental when valuing it. In the United States, if someone wants to ship goods from New York to California via rail, they have to change trains somewhere in the middle. In Canada, someone can ship something all the way from the east coast to the west coast using Canadian National. This saves time because companies don't need to unload their goods from one railroad and load them up on another.

Further, the company also goes north to south, which means it can transport oil from northern Canada

down to the Gulf of Mexico, which is another competitive advantage. Canadian Pacific, unfortunately, doesn't have a transcontinental railway. This limits where it can ship goods.

Dividends

When it comes down to it, Canadian National rewards its investors far better than Canadian Pacific. Canadian National pays a yield of 1.71%, which comes out to \$0.31 per quarter. Canadian Pacific, on the other hand, only pays a 0.73% yield, which comes out to \$0.35 per quarter. You're only make \$0.04 less a share buying Canadian National, but you can buy nearly three shares of Canadian National for the price of one Canadian Pacific share.

Sell Canadian Pacific and buy Canadian National

I think it's pretty obvious which company is better. While Canadian Pacific has certainly turned around and become a solid company, I like companies to pay good dividends. And Canadian National has a history of rewarding investors.

So, if you want more quarterly income, sell your Canadian Pacific shares and buy Canadian National to see an immediate boost in income.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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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