



Should Investors Buy Royal Bank of Canada or Canadian National Railway Company?

Description

Recent market volatility is reminding investors that stocks don't always go straight up. While pullbacks can be gut-wrenching to watch, they also provide opportunities for long-term investors to pick up solid dividend payers at reasonable prices.

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) are two of Canada's top stocks and both have sold off recently.

Let's take a look the two titans to see where they stand.

Royal Bank

Despite all the market turmoil, Royal is still delivering very strong results. In the most recent quarter that ended July 31, Royal earned net income of \$2.45 billion, which was 4% higher than the same period last year. That's pretty impressive considering the current economic conditions.

Part of the reason lies with Royal's balanced revenue stream. The bank gets 19% of its earnings from the U.S, and 18% from its international operations.

The U.S. segment is set to become more important in the coming years. Royal is in the process of acquiring City National, a California-based wealth management company, for US\$4.5 billion. When completed, the deal will boost revenue coming from the U.S. and should provide Royal with a strong platform to expand the business going forward.

Royal pays a quarterly dividend of \$0.79 per share that yields 4.4%. The company has increased the payout nine times in the past five years, and investors should expect to see the dividend growth continue.

Shares of Royal are down more than 12% over the past year, and investors are wondering if there is more pain on the way.

In the coming months there could be, but the stock now trades at an attractive 10.3 times forward earnings and is getting down to the point where the price is cheap enough that investors with a long-term outlook should be comfortable stepping in.

Canadian National Railway

CN is one of those companies you can simply buy and forget about for decades, because you know that revenues and earnings are going to chug along steadily as the American and Canadian economies continue to grow.

At the moment, Canada is going through a rough patch, but that is simply a speed bump in the overall picture.

CN is a great pick because its business is very well diversified. When one segment of the economy falters, another tends to pick up the slack. Right now the stock is taking a breather because the oil rout is putting the brakes on the rapid growth in crude-by-rail shipments.

That might last for some time, but this business segment isn't going to disappear because Canadian oil sands producers still have to get their product to the refineries and there isn't enough pipeline capacity to allow them to do that.

While CN waits for the oil sector to recover, it is benefiting from the weak Canadian dollar. Forestry and auto shipments are very strong right now and every dollar of the company's U.S.-based profits currently converts to CAD\$1.32.

The balanced revenue stream is why CN reported solid Q2 net income of \$1.10 per share, up from \$1.03 in the second quarter of 2014.

The company raised the dividend by 25% earlier this year and management plans to give a higher percentage of free cash flow back to shareholder going forward. The stock currently trades at a reasonable 16 times forward earnings.

Is one a better investment?

At this point, I would tip my hat to CN because I think it offers a better shot at stronger dividend growth, but both stocks should be very solid picks at their current prices.

CATEGORY

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1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
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Date

2025/08/21

Date Created

2015/09/25

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