



## Which of Canada's Big 2 Rail Companies Is the Better Buy Today?

### Description

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) are the two largest rail-network operators in Canada, and both of their stocks represent very attractive long-term investment opportunities today.

However, in order to keep our portfolios diversified, we must only choose one, so let's take a closer look at each company's earnings results in fiscal 2015, their stocks' valuations, and their dividends to determine which is the better buy now.

### Canadian National Railway Company

Canadian National is the largest rail network operator in Canada. Its stock has fallen over 12% in the last year and about 1% year-to-date, including a rally of more than 7% since it released its earnings results after the market closed on January 26 for its fiscal year ended on December 31, 2015. Here's a summary of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 15.7% to a record \$3.58 billion
2. Adjusted diluted earnings per share increased 18.1% to a record \$4.44
3. Total revenues increased 3.9% to \$12.61 billion
4. Total carloads decreased 2.5% to 5.49 million
5. Total rail freight revenue per carload increased 6.6% to \$2,170
6. Operating income increased 13.9% to \$5.27 billion
7. Operating ratio improved 370 basis points to 58.2%
8. Net cash provided by operating activities increased 17.3% to \$5.14 billion
9. Free cash flow increased 6.9% to a record \$2.37 billion
10. Repurchased 23.3 million shares for a total cost of approximately \$1.75 billion

At today's levels, Canadian National's stock trades at 17.2 times fiscal 2015's adjusted earnings per share of \$4.44, 16.3 times fiscal 2016's estimated earnings per share of \$4.69, and 15.2 times fiscal 2017's estimated earnings per share of \$5.06, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.6 and the industry average multiple of 17.9.

In addition, Canadian National pays a dividend of \$0.375 per share quarterly, or \$1.50 per share annually, which gives its stock a yield of about 2%. Investors must also note that the company has raised its annual dividend payment for 19 consecutive years, and its 20% hike on January 26 puts it on pace for 2016 to mark the 20th consecutive year with an increase.

### Canadian Pacific Railway Limited

Canadian Pacific is the second-largest rail network operator in Canada. Its stock has fallen about 27% in the last year and over 3% year-to-date, including a rally of more than 13% since it released its earnings results on the morning of January 21 for its fiscal year ended on December 31, 2015. Here's a summary of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 9.6% to a record \$1.63 billion
2. Adjusted earnings per share increased 18.8% to a record \$10.10
3. Total revenues increased 1.4% to a record \$6.71 billion
4. Total carloads transported decreased 2.1% to 2.63 million
5. Total rail freight revenue per carload increased 3.5% to \$2,493
6. Adjusted operating income increased 12.2% to \$2.62 billion
7. Adjusted operating ratio improved 370 basis points to a record 61%
8. Cash provided by operating activities increased 15.8% to \$2.46 billion
9. Free cash flow increased 59.3% to a record \$1.16 billion
10. Repurchased 13.55 million shares for a total cost of approximately \$2.75 billion

At today's levels, Canadian Pacific's stock trades at 17 times fiscal 2015's adjusted earnings per share of \$10.10, 15.3 times fiscal 2016's estimated earnings per share of \$11.25, and 13.5 times fiscal 2017's estimated earnings per share of \$12.76, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 26.9 and the industry average multiple of 17.9.

In addition, Canadian Pacific pays a dividend of \$0.35 per share quarterly, or \$1.40 per share annually, which gives its stock a yield of about 0.8%. Investors should also note that it has maintained this annual rate since 2013.

### Which is the better long-term buy today?

Here's how each company ranks when directly comparing their earnings results, their stocks' valuations, and their dividends:

Metric	Canadian National	Canadian Pacific
Earnings Strength	1	2
Current Valuation	2	1
Forward Valuations	2	1

Dividend Yield	1	2
Dividend Growth	1	2
<b>Average Ranking</b>	<b>1.4</b>	<b>1.6</b>

As the chart above depicts, Canadian Pacific's stock trades at more attractive current and forward valuations, but Canadian National reported stronger earnings results in fiscal 2015, has a higher dividend yield, and has an impressive streak of annual dividend increases, giving it the edge in this match up.

With all of this being said, I think both stocks represents great long-term investment opportunities today, so Foolish investors should strongly consider beginning to scale in to positions in one of them over the next couple of trading sessions.

### CATEGORY

1. Investing
2. Stocks for Beginners

### 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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