



## Is Canadian National Railway Company or Telus Corporation a Better RRSP Pick?

### Description

The deadline for contributing to an RRSP for the 2015 tax year is just a few days away.

Many investors choose to buy stocks for their RRSP accounts, and the weakness in the market over the past year is finally serving up some interesting picks.

But which stocks should investors buy?

When looking for top picks, it is generally a good idea to go with industry leaders in sectors that have significant barriers to entry. The ideal stocks should also have strong track records of dividend growth that is supported by rising free cash flow.

With these thoughts in mind, let's take a look at **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) to see if one is a better RRSP pick.

### CN

CN might be the best big-moat business in the Canadian market. The company has limited competition, and the odds of anyone building a new rail network along CN's routes are pretty much nil.

As such, CN is focused on stealing business from trucking companies and ensuring it stays competitive with its railway peers.

The company is investing in intermodal hubs along its network to give domestic and international shippers long-haul options that put the product close to the final destination. This means the company can compete with trucking companies on more routes.

As for competing with its peers, CN has an advantage in that it is the only railway with lines connected to three coasts. It is also the most efficient company in the business. In fact, many analysts view CN as the best-run company in the sector, and its industry-leading operating ratio is a big reason for the accolades.

CN kicks off a ton of free cash flow and is very good about returning the profits to shareholders through dividends and share buybacks.

Management recently increased its dividend by 20%, and investors have enjoyed an average annual distribution increase of 17% since 1996. The payout offers a yield of 1.9%.

The stock is taking a breather right now as the Canadian economy works through some economic headwinds, but profits continue to roll in at a healthy clip thanks to the significant U.S.-based operations.

## **Telus**

Telus invests a significant amount of money in its commitment to provide the best customer service in the Canadian telecom industry.

Those efforts appear to be paying off as Telus continues to win new TV, Internet, and mobile customers. The company also boasts the lowest mobile churn rate in the sector and is the fastest-growing national telecom carrier.

Despite the success, Telus has pulled back in recent months as worries mount that new TV rules could hit subscription revenues.

What's going on?

Beginning in March, Canadians will have the option to choose a basic \$25 TV package and add channels on a pick-and-pay basis. Some of the content producers might take a hit if niche-market shows don't have enough fans, but the service providers will probably see viewers simply add channels until they hit their existing bill rates.

Telus only has three serious competitors, and the odds are quite low that a new national carrier will enter the scene. This means mobile, TV, and Internet rates should remain robust.

Like CN, Telus is very good at returning free cash flow to investors via share buybacks and rising dividends. The dividend currently offers a yield of 4.4%.

## **Which is the better pick?**

Both stocks are great choices for an RRSP investment.

If you can only choose one, I would go with CN because it enjoys a wider moat and should continue to grow at a regular clip in line with North American economic expansion. CN also gives investors a way to benefit from a strong U.S. dollar, and the American operations provide a nice hedge against a weak Canadian economy.

## CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

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2. NYSE:TU (TELUS)
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