This Is The Best Railroad For Your Portfolio

Description

There are some segments of the economy where selecting one company over another to invest in can make a world of difference. Tech and retail industries come to mind as examples of this, as picking a company on the verge of a turnaround is a completely different investment over an established and profitable company.

One area where investors do not have to worry that much in selection is in the railroad industry.

The companies within the railroad industry are traditionally labeled as some of the best “forever stocks” an investor can hold. The companies running the railroads are typically very-long established companies with massive infrastructure already laid out and paid for with track spanning thousands of kilometres, to and from multiple coasts.

Railroads also provide an important service through freight shipments that keep other areas of the economy moving. This service is, for the most part, taken for granted by most investors, and provides a steady stream of revenue for the railroads.

In short, railroads have a massive defensive moat and a steady stream of revenue that fuels the rest of the economy. Sounds like a great “forever” industry to me.

Close to home, **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) are two of the largest railroads on the market, both with vast networks, great dividends and growth prospects.

Here’s a look at both of them and which one is the better investment.

Canadian Pacific – efficiency above all

Canadian Pacific currently trades at $183.01, up by 12% over the past month. Year-to-date, the stock is up by 3.5%, and looking out over the past five years the stock is up by over 210%. Canadian Pacific pays out a quarterly dividend of $0.50 per share, giving the stock a yield of 1.09%.

Canadian Pacific recently announced that second quarter results would be weaker than originally expected, mostly due to the prolonged drop in commodity prices, as well as the fluctuation in the past few months of the loonie. Additionally, the wildfires this past spring in the Fort McMurray region caused sharp cuts to outputs from the oil sands also resulted in a cut in rail traffic for the quarter.

One area where Canadian Pacific has excelled over the past few quarters has been in becoming more efficient. The operating ratio is a measure used to gauge overall efficiency and performance (operating expenses/total revenue). During the first quarter of the year Canadian Pacific’s operating ratio got down to record low of 58.9%. While in the most recent quarter the company noted that the ratio is likely to slip back up to 62%, the company remains focused on improving efficiency.

Canadian National – growth and deals

Canadian National currently trades at $80.67. Over the past month Canadian National is up by 7.5%, and looking out over the past six months reveals an increase of 11.45%. Long term investors considering Canadian National will be pleased with the stock that has increased by nearly 40% over the past two years.

Canadian National also pays out a quarterly dividend of $0.38 per share, which given the current price gives the stock a yield of 1.86%. While not the highest paying yield on the market, Canadian National's dividend will provide investors with a fair income from their investment.

There are two attractive points when discussing Canadian National… Firstly, that the company has access to three ports in North America – something that few other competitors can match. And secondly, that the company has forged and continues to look for new business agreements to supplement revenues through new opportunities.

One such opportunity is the Port of Prince Rupert, which is the fastest growing port on the continent. Canadian National has exclusive rail rights for the port, and is now seeking a similar agreement for the port of Mobile, Alabama, which is undergoing an extensive renovation.

The better investment is…

Both companies represent solid investments, but if having to choose one of the companies, I would pick Canadian National. While the company does not have the same growth over the past period as Canadian Pacific, the stock is priced lower, pays a higher dividend, and is focused on both improving efficiency, as well as expansion.

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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Author
dafxentiou