



Better Buy: Canadian National Railway Company or Canadian Pacific Railway Limited?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) are the largest rail network operators in Canada and two of the 10-largest rail network operators in North America, 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 compare the companies' financial performances in the first half of 2016, their stocks' valuations, and their dividends to determine which is the better buy right now.

Canadian National Railway Company

Canadian National, the largest rail network operator in Canada, announced its earnings results for its three- and six-month periods ended on June 30 after the market closed on July 25. Here's a breakdown of eight of the most notable statistics from the first half of 2016 compared with the first half of 2015:

1. Adjusted net income increased 1.5% to \$1.66 billion
2. Adjusted diluted earnings per share increased 5% to \$2.11
3. Total revenues decreased 6.7% to \$5.81 billion
4. Carloads transported decreased 9.5% to 2.5 million
5. Rail freight revenue per carload increased 2.7% to \$2,193
6. Operating income increased 3.5% to \$2.51 billion
7. Operating ratio improved 420 basis points to 56.8%
8. Free cash flow increased 11.2% to \$1.17 billion

Canadian National's stock currently trades at 18.3 times fiscal 2016's estimated earnings per share of \$4.47 and 16.8 times fiscal 2017's estimated earnings per share of \$4.89, the latter of which is inexpensive compared with its trailing 12-month price-to-earnings multiple of 18.1 and its five-year average multiple of 17.8. These multiples are both inexpensive given its estimated 7.8% long-term

earnings-growth rate.

In addition, Canadian National pays a quarterly dividend of \$0.375 per share, representing \$1.50 per share on an annualized basis, and this gives its stock a yield of about 1.8% at today's levels. Investors must also note that its 20% dividend hike in January has it on pace for 2016 to mark the 20th consecutive year in which it has raised its annual dividend payment.

Canadian Pacific Railway Limited

Canadian Pacific, the second-largest rail network operator in Canada, announced its earnings results for its three- and six-month periods ended on June 30 before the market opened July 20. Here's a breakdown of eight of the most notable statistics from the first half of 2016 compared with the first half of 2015:

1. Adjusted net income decreased 10.7% to \$696 million
2. Adjusted diluted earnings per share decreased 3.2% to \$4.55
3. Total revenues decreased 8.3% to \$3.04 billion
4. Carloads transported decreased 6.3% to 1.23 million
5. Rail freight revenue per carload decreased 2.8% to \$2,405
6. Operating income decreased 4.3% to \$1.2 billion
7. Operating ratio improved 170 basis points to 60.4%
8. Free cash flow decreased 86.4% to \$66 million

Canadian Pacific's stock currently trades at 17.9 times fiscal 2016's estimated earnings per share of \$10.68 and 15.6 times fiscal 2017's estimated earnings per share of \$12.27, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 19.5 and its five-year average multiple of 27. These multiples are also inexpensive given its estimated 11.3% long-term earnings-growth rate.

In addition, Canadian Pacific pays a quarterly dividend of \$0.50 per share, representing \$2.00 per share on an annualized basis, and this gives its stock a yield of about 1.05% at today's levels. Investors must also note that its 42.9% dividend hike in April has it on pace for 2016 to mark the first year in which it has raised its annual dividend payment since 2012.

Which rail network operator is the better buy right now?

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

Metric	Canadian National	Canadian Pacific
Strength of Earnings	1	2
Forward P/E	2	1
Valuations		
Dividend Yield	1	2
Dividend Growth	1	2
Average Ranking	1.25	1.75

As the chart above depicts, Canadian Pacific trades at slightly more attractive forward valuations, but

Canadian National reported much stronger earnings results in the first half of 2016, has a much higher dividend yield, and has a very impressive streak of annual dividend increases, giving it an easy win in this match-up.

Even though Canadian National won this match-up, I think both it and Canadian Pacific represent great long-term investment opportunities, so all Foolish investors should strongly consider making one of them a core holding today.

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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Date

2025/09/10

Date Created

2016/08/08

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