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

Description

Canadian railways are a terrific core holding for any investor looking for capital appreciation and a fast-growing dividend. There's a reason why billionaire investors like Warren Buffett love the rails. They're simple businesses with gigantic moats; they've been around for many decades and will most likely be around for many more.

You can become very rich over the long term by holdings shares of either of the following rails, but which one is the better buy for 2017 and beyond?

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

Canadian National Railway is one of the best-run railways in North America. The company owns over 20,000 miles worth of track that spans both Canadian coasts as well as the Gulf coast of the U.S. The stock has consistently outperformed the TSX Composite Index over the long term and continues to be one of the best dividend-growth kings in Canada.

The management team is top-notch and a huge reason why the company is able to consistently grow its dividend each year. In the fiscal year 2016, the company was able to decrease its labour costs by 7%. For Q4 2016, the operating ratio improved by 0.6% to 56.6%. Canadian National Railway is focused on improving the long-term efficiencies of the business, even during a mixed economic environment. This focus will allow the company to perform well, even if volumes decrease during an economic downturn.

Going forward, volumes are expected to increase as President Trump's plans to boost the U.S. economy are likely to provide a huge boost to Canadian National Railway's U.S. network. We can also expect more improvements to operational efficiency and more generous annual dividend hikes in the 10-15% range.

The stock currently trades at a 20.7 price-to-earnings multiple and a 4.7 price-to-book multiple, both of which are slightly higher than the company's five-year historical average multiples of 18.3 and 4.1, respectively. Although the stock seems pricey, I believe the strengthened U.S. economy will allow Canadian National Railway to be a huge outperformer for 2017 and beyond.

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP)

Canadian Pacific has been trading under the $200 ceiling of resistance for a few months. Ex-CEO Hunter Harrison left his position at the helm of Canadian Pacific earlier than originally anticipated. Harrison worked wonders for Canadian Pacific with his cost-cutting initiatives. The stock responded by soaring, but now there are no more places to cut as the low-hanging fruit has been picked.

Sure, the management team with new CEO Keith Creel can implement cost-cutting initiatives, but this would most likely negatively affect the long-term profitability and growth of business. I believe more cost cuts are out of the question for now, but I think the company will be okay without Harrison.

Investors have to realize that Canadian Pacific isn't the growth superstar it was a few years ago. It just isn't realistic to expect the same magnitude of returns the stock generated in the past, and investors should expect only modest returns going forward.

The stock currently trades at a 6.2 price-to-boom multiple, which I believe is ridiculously expensive, especially considering the fact that the company is no longer a powerhouse with Harrison.

It's going to be very challenging to find new areas to grow, so I'd recommend staying on the sidelines until the stock pulls back to the $160 level.

Conclusion

I would favour Canadian National Railway over Canadian Pacific at current levels. Canadian National Railway has a larger railway network with a big U.S. presence, so it's well positioned to capitalize on a strengthening American economy over the next few years. Canadian National Railway also has a higher yield at 1.76% compared to Canadian Pacific with a 1.02% yield.

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)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date
2025/08/29
Date Created
2017/02/20
Author
joefrenette