



Has the Train Left the Station at Canadian National Railway Company?

Description

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) is up 24.2% since the beginning of 2016 and more than 12% year-to-date.

Canada's largest railway, CN Rail has traditionally been looked to as a safe haven for long-term investors looking to buy into the long-term inflation-related growth prospects of North American industry over a long period of time.

I'm going to dive into how this railroad's prospects look moving forward for a long-term investor and whether the stock is a good buy at current levels, given the assortment of opportunities currently available to investors.

Fundamentals

In assessing CN Rail, it may be useful to take a look at one of its closest peers, **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)), to assess how this company has performed over time and how this railroad's prospects look moving forward for the long-term investor interested in a "Buffett-like" approach to investing.

Both railroads are very similar in terms of coverage and service with these similarities reflected in the corresponding price-to-earnings ratios of both companies, which are nearly identical.

Let's start off with the dividends. CN Rail has a current dividend yield of 1.62% compared with 1.06% for CP Rail; while both dividends are small, it seems that CN Rail has indeed been the better performer in terms of yield over time; the trailing five-year average dividend yields for CN Rail and CP Rail are 1.5% and 1%, respectively.

In terms of gross and net margins, CN Rail again takes the cake.

CN Rail has a gross margin of 44% and a profit margin of 30.4% compared to CP Rail's gross and net margins of 41.6% and 23.9%, respectively.

Margins are a huge part of the story in the railroad business; companies like CN Rail that consistently perform better margin-wise than competitors tend to appreciate at a faster rate over time.

Debt levels for each railroad are very high, as is typical of the railroad industry. That said, CN Rail has better leverage ratios than CP Rail, excluding the current ratio measuring short-term liquidity.

Bottom line

While the capital-appreciation profiles of each company are nearly identical year-to-date, it appears to me that CN Rail has been better able to provide investors with sustained elevated margins.

The growth prospects of both railroads appear to be strong, and while it may be hard to pick a winner at first glance, the vast majority of the fundamental indicators speak to CN Rail being the stronger choice for a long-term investor considering Canadian railroads.

Stay Foolish, my friends.

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