Rail Investors: Should You 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 two fantastic forever stocks that can solidify the core of any portfolio. Both stocks are trading at similar valuations, but which one offers a more attractive entry point for long-term investors?

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Canadian National Railway Company

Canadian National is known as the most efficient railroad in North America, but many pundits have been questioning this title following an earnings report with a lower than expected operating ratio. Although the company delivered strong top- and bottom-line results, the small 0.5% operating ratio increase was enough for the stock to trade in the red immediately following the earnings release.

The stock rallied in the weeks that followed, and looking back, the post-earnings dip was nothing more than an entry point for long-term investors. Sure, the operating ratio was low, but the company can't hit a home run every earnings release. It's just not realistic.

Canadian National is still a very efficient operator, and the management team is focused on driving operational efficiencies through initiatives. Over the long run, these initiatives will pay major dividends, both figuratively and literally. Canadian National has been a solid dividend-growth king for many years and will continue to be one in the years to come.

Canadian National currently trades at a 21.92 price-to-earnings multiple, a 5.4 price-to-book multiple, and a 6.7 price-to-sales multiple, all of which are higher than the company's five-year historical average multiples of 18.3, 4.1, and 4.9, respectively. The stock isn't cheap right now, but I believe you'll still do very well over the long term by picking up shares today.

Canadian Pacific Railway Limited

Canadian Pacific is finally starting to pick up positive momentum after many months of trading around the $200 levels. Rail tycoon Hunter Harrison is no longer at the helm, so his right-hand man Keith

Creel will be looking to put the company back on the growth track.

Canadian Pacific is no longer a high-growth play like it was several years ago when Mr. Harrison was cutting costs where he could. There aren’t many opportunities to cut costs anymore, and the new CEO Mr. Creel will need a new strategy to boost top-line growth. Mr. Creel is focused on improving customer service and expanding sales staff to attract new customers.

Canadian Pacific trades at a 21.27 price-to-earnings multiple, which is lower than the company’s five-year historical average price-to-earnings of 27.9. Although the company may seem cheap, it’s no longer the growth sensation that it was in the past, so it’s not worthy of such a high price-to-earnings multiple.

Canadian Pacific appears to be back on the right track, but I like Canadian National better at these levels. I believe Canadian National has the better network, a stronger management team, and more medium-term catalysts.

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Date
2025/08/29
Date Created
2017/06/05

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