



Which Canadian Railroad Is Best?

Description

Comparing Canada's largest railroads is an interesting exercise, one which involves taking a look at the unique drivers of each business and determining which one makes a better long-term add to a given portfolio based on long-term fundamentals and catalysts that should drive these railroads forward into the future.

By looking at both **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), we can see a high-level divergence from U.S. railroads such as **CSX Corporation** ([NASDAQ:CSX](#)), **Norfolk Southern Corp.** ([NYSE:NSC](#)), and **Union Pacific Corporation** ([NYSE:UNP](#)) in terms of share price appreciation year to date.

The winner in the North American railroad space this year has been CSX Corp. primarily due to the fact that now-CEO Hunter Harrison has jumped ship to the American railroad company from CP Rail, a departure which has been linked to driving the vast majority of CSC Corp.'s meteoric stock price rise of more than 50% year to date.

Mr. Harrison has been credited with turning around CP Rail's prospects by implementing his own freight-management system known as precision scheduled railroading, a strategy which has led to years of outperformance and growth — something CSX shareholders have begun to bank on with CSX, a railroad which has seen high levels of volatility throughout the years. This move has been attributed to activist investor group Mantle Ridge, which purportedly offered Mr. Harrison US\$84 million to take on the new role as compensation for benefits that would be forfeited by leaving his role at CP Rail — a significant incentive.

Other American railroads, such as Norfolk Southern and Union Pacific, have performed reasonably well year to date with respective increases of 12.6% and 5%, reflecting broader economic growth and positive sentiment for growth rates in the U.S. over the near to medium term.

Comparatively, CP Rail has seen its stock price appreciate 9% year to date, and Canadian National has appreciated approximately 16% since January 1 of this year — solid stock price appreciation to date, reflecting strong positive investor sentiment surrounding North American growth. CP Rail has

lagged behind its peers for the past few years, however, as CN Rail, Canada's largest railroad, has posted a number of solid earnings reports supported by freight volume improvements and contract wins that have aided it in bolstering its market-leading position.

Bottom line

If we consider only CP Rail and CN Rail, the winner in the Canadian railroad space at this time appears to be CN Rail based on the company's long-term prospects and ability to continue to win freight contracts and improve its volume and margin numbers on a consistent basis.

Stay Foolish, my friends.

CATEGORY

1. Investing

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2. NYSE:CP (Canadian Pacific Railway)
3. NYSE:NSC (Norfolk Southern Corporation)
4. NYSE:UNP (Union Pacific)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:CP (Canadian Pacific Railway)

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