How Have Profits Been Shared by Canada’s Biggest Railways?

Description

The past decade has been very good to Canada’s railways. Over the past 10 years, shares of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) have increased by more than 180%. Although that’s fantastic, it was dwarfed by **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). Shares of Canada’s biggest railway increased by over 650% over the past decade.

Canadian National Railway currently carries a market capitalization close to $80 billion, the company has made long-term investors very happy by returning almost 400% over the past five years and 35% over the past year. The company, which currently pays a dividend close to 1.5%, has a relatively low beta of 0.75.

Taking the dividend-payout ratio of the past four years into consideration, investors have done very well. Starting in 2013, the company made a total profit of $3.02 per share and paid out $0.86 in dividends. The payout ratio, calculated as dividends / earnings per share, was 28.5% in 2013 and remained consistent in the years that followed. The dividend-payout ratios were 26.7% in 2014, 28.7% in 2015, and 32.7% in 2016. From 2013 to 2016, the compounded annual growth rate (CAGR) of earnings was 14.89% and 20.3% for dividends. Investors are beginning to receive a bigger part of the profits as of late.

Let’s look at Canadian Pacific Railway. The return over the past five years was almost 180%, and over the past year, the price return was 20%. The company, which carries a market capitalization of approximately $30 billion, has a beta of 0.74 and pays a dividend slightly above 1%. For investors considering the same metrics, the company paid a dividend of $1.40 out of earnings of $6.84 during fiscal 2013, which translates to a dividend-payout ratio of 20%. Since then, the dividend payout ratios have been 16.5% in 2014, 17.5% in 2015, and 17.9% in 2016.

The CAGR of earnings from 2013 to 2016 was 14.7% and 9.7% for dividends. Although investors in Canada’s second-largest railroad have not received as high a proportion of the profits as those invested in Canada’s biggest railroad through dividends, there is still more to it.

We can evaluate the total amount of Canadian National Railway shares outstanding by evaluating the financial statements. Beginning with 2013 as the base year, the company had a total of 830.6 million shares outstanding, which was reduced to a total of 762 million by the end of fiscal 2016. The company shrank the total amount of shares outstanding by 8.2% over this period. As a reminder, the CAGR of earnings was 14.89% during the same period.

Let’s move on to Canadian Pacific Railway Limited. The company had a total of 175.4 million shares outstanding at the end of 2013, which shrank to a total of 146.3 million shares by the end of 2016. The total reduction in shares outstanding was by 16.6%. Again, during this period, the CAGR of earnings was 14.7%, which is comparable to the bigger competitor.

For investors comparing the two companies, it is important to take into consideration the capital-allocation policies of each company. Although one railroad has paid substantially more in dividends, the other offers a smaller dividend, instead choosing to retire a higher proportion of the total shares outstanding.

Over time, investors seeking dividends vs. capital appreciation will line themselves up with the right company.

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Author
ryangoldsman