Which Is the Better Railroad Investment for Your Portfolio?

Description

Railroads are some of the most lucrative investments on the market. Amazingly, most investors don't realize the opportunity that railroads present, or how important railroads are to the overall economy.

Both **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) are the primary railroads in Canada, and among the largest on the continent.

But which of these two behemoths is better for your portfolio? Let's look at the case for both.

The case for Canadian National

Canadian National is the larger of the two railroads, with a massive network that spans over 32,000 km and connects three coastlines in North America. This is a unique differentiation that no other railroad can attest to.

One of the key metrics for railroads is the operating ratio, which refers to the operating expenses as a percentage of revenue. The lower the figure, the more efficient the business is being run. Canadian National is often regarded as the industry leader in terms of the operating ratio, which, in the most recent quarter, came in at just 54.7%.

In terms of results, Canadian National reported net income of $958 million, or $1.27 per share diluted, in the most recent quarter. Total revenue surged 7% over the same quarter last year, coming in at $3,221 million.

Canadian National is actively investing in updating both infrastructure and equipment, with the company allocating $2.7 billion across 2017. This is a key point that should result in increased efficiencies and lower costs.

Overall, the company has forecasted adjusted diluted earnings per share for the full fiscal year to come in at $4.95-5.10 per share. The figure for the previous year was just $4.59 adjusted diluted EPS.

The case for Canadian Pacific

Canadian Pacific has a network of nearly 20,000 km of track that spans much of Canada from Montreal to Vancouver, as well as portions of the U.S.

In the most recent quarter, Canadian Pacific reported revenues of $1,595 million, representing a 3% increase over the same quarter last year. Canadian Pacific's operating ratio came in at 56.7%. Canadian Pacific posted diluted earnings of $3.50 per share, which was an impressive improvement of 50% over the same quarter last year.

While that improvement sounds impressive, looking deeper into the financials reveals a couple of areas of concern for investors. Of the nine different freight revenues that Canadian Pacific tracks, more than half came in lower in the most recent quarter, some with double-digit drops such as grain, which experienced a 5% drop akin to a decrease in revenue of $21 million.

Which is the better investment?

Railroads are freakishly great investments, yet most investors don't realize how much of an impact railroads make on the overall economy. Both Canadian National and Canadian Pacific haul a well-diversified mix of freight that spans from automotive components and coal to oil and wheat.

Both companies offer investors respectable growth and dividend prospects, but between the two companies, Canadian National, in my opinion, represents the better investment option, owing primarily to the better operating ratio and strong results.

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