Which Is the Better Buy: Canadian National Railway or Canadian Pacific Railway Limited?

Description

In the long run, the returns of **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) have either been market beating or market matching. So, whenever they're trading at good valuations, conservative investors can consider buying some shares of either stock.

My previous analysis in September 2017 on the two companies was right on! In that article, I'd concluded that "total returns investors should consider Canadian Pacific Railway over Canadian National Railway today. If you like Canadian National Railway's consistent dividend growth, consider the stock at a lower valuation — perhaps below $90 at a multiple of ~18."

At the time, Canadian National Railway was trading at ~$101 per share. In a little over six months, the stock has pulled back ~10% to ~$91 per share, which is close to that $90 mark. Then there was Canadian Pacific Railway, which traded at ~$194 per share and now trades almost 14% higher at ~$221 per share.

Which is a better investment today?

By looking at the valuation and growth potential of Canadian National Railway and Canadian Pacific

Railway, we can determine which should be a better buy today.

At ~$91 per share, Canadian National Railway trades at a multiple of ~18, while the analyst consensus estimates it will grow its earnings per share (EPS) by 8.5-10.2% per year for the next three to five years.

At ~$221 per share, Canadian Pacific Railway trades at a multiple of ~18.8, while the analyst consensus estimates it will grow its EPS by 11.3-13.1% per year for the next three to five years.

Compared to six months ago, the earnings growth of Canadian National Railway is expected to be slightly lower, while the earnings growth of Canadian Pacific Railway is expected to be slightly higher. That's one reason why Canadian Pacific Railway has done better — on top of experiencing a price-to-earnings ratio expansion from ~17.5 to ~18.8. Canadian Pacific Railway remains a better-valued stock for its growth potential.

Investor takeaway

Although Canadian Pacific Railway remains a better-valued investment than Canadian National Railway, the latter company is typically viewed as higher quality — partly for its higher credit rating and partly for its consistent dividend growth.

Canadian National Railway has increased its dividend for 22 consecutive years. The company's 10-year dividend-growth rate is 14.7%, while its recent dividend increase was ~10%. For the next few years, investors can expect healthy dividend growth of roughly 8-10% per year.

From a valuation perspective, investors should consider Canadian Pacific Railway over Canadian National Railway. However, cautious investors should look for an entry point of $200 or lower for a bigger margin of safety.

Canadian National Railway is a quality company that's fairly valued. If you like the company, you can consider nibbling at the current levels, while keeping in mind that the stock is in a downtrend and can go lower from here.

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Date
2025/08/29
Date Created
2018/03/27
Author
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