Which of Canada's Top 2 Railway Stocks Is the Better Buy Today?

Description

The economy has been doing well lately, and that typically means demand is up for railway operators, since more raw materials and finished goods need to be transported across the country. For that reason, I'm going to look at the two biggest railway operators in the country to see which one might be a better buy today.

Canadian National Railway (TSX:CNR)(NYSE:CNI) has been busy the past year, as the company saw demand surge, which led to the railway operator having to add more staff just to deal with the increased activity levels.

However, despite having a busy year, CN Rail's stock price has declined by 5% in the past year, and in the last three months it is down 11%. A key reason behind the drop in price was the company's disappointing Q4, which posted a strong profit thanks to U.S. tax cuts, but it ultimately fell short of analyst expectations.

There is also the danger that CN Rail is making too big of a bet on the Canadian economy with the purchase of additional locomotives. Although the economy is doing well today, rising interest rates, NAFTA uncertainty, and increased minimum wages could slow the level of growth we've seen so far.

Canadian Pacific Railway (TSX:CP)(NYSE:CP) has done a bit better than its rival with its share price rising more than 12% in the past year, although that has started to slow down as well, as the stock has declined 2% in the past three months.

CP Rail also got a boost from income tax recoveries in its most recent quarter, which nearly tripled its bottom line from a year ago. However, despite the strong finish to the year, CP Rail didn't get a boost from its earnings either.

Both companies had strong years, and both have optimistic outlooks for 2018, so let's see if their valuations make one stock a better buy than the other.

Which stock is a better value?

CN Rail trades at more than four times its book value, and with strong earnings in its most recent quarter, it trades a price-to-earnings (P/E) ratio of 13. Its recent decline has pushed it within 5% of its 52-week low.

CP Rail is currently priced at five times its book value and has a P/E ratio of nearly 14. The share price is more than 18% away from its 52-week low.

If we look at valuations, then a slight advantage goes to CN Rail, as it is the more likely of the two stocks to be undervalued.

A look at dividends

Since railway stocks are good long-term holdings, it’s appropriate that we consider dividend payments as well.

Currently, CN Rail pays its shareholders 1.9% after recently hiking its payout. In five years, the dividend has more than doubled, and it has averaged a compounded annual growth rate (CAGR) of over 16%.

CP Rail pays a more modest dividend of 1%, and it is due for a rate hike perhaps as soon as next quarter. In five years, its payouts have grown by 60% for a CAGR of 10%.

Bottom line

CN Rail is the better of the two stocks to invest in today, as it is a better value buy and has a better dividend as well. However, both companies have strong financials and will continue to benefit from a strong economy.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/08
Date Created
2018/04/05
Author
djagielski