Canadian National Railway vs. Canadian Pacific Railway Limited: Which Is Today's Top Railroad to Riches?

Description

Rail investing is a boring, yet very safe and efficient way of building capital over the long term. Canada has a rail duopoly with **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP), and it's pretty much impossible for a new competitor to step in to steal the spotlight away from these two wide-moat firms, which essentially serve as the bloodstream of the Canadian economy.

For those seeking a wide-moat blue-chip with long-term market-beating prospects, the question is not a matter of whether one should include a Canadian railway as a part of their portfolios; rather, it's whether CN or CP Rail is the stock to own at a particular point in time.

Things look bleak for both Canadian rails

CN Rail has been an incredibly stable dividend-growth king that's delivered investors a steady and growing source of income for decades. It's been such a fantastic rail operator that it's been deemed North America's most efficient railway. In recent years, however, this title may be in jeopardy, as CN Rail has suffered from less-than-stellar results and a freight backlog that's beginning to look overwhelming.

CP Rail, however, is a firm that's evolved from being a high-growth stock under the late Hunter Harrison to a stock that's more of a value play today with Harrison's protegé Keith Creel now at the helm. Expectations have been adjusted, and the stock had finally begun to pick up traction over the past year. Like CN Rail, though, CP Rail has its own share of problems.

More recently, the firm clocked in underwhelming results for its recent first-quarter report, which saw diluted EPS fall 18% on a year-over-year basis to $2.41 and also falling shy of the street consensus.

To add even more salt in the wounds of CP Rail, teamsters served the company with a 72-hour strike notice, which could really be the start of a sell-off back to $200 levels. According to the president of the Canadian Federation of Agriculture: "A strike would just be another nail in the coffin of another really bad year for shipping." Farmers are poised to take a big hit to the chin, as the crop glut could become severely exacerbated by the bottleneck in rail shipments.

Which, if any, should investors buy today?

While it may seem like a good idea to pass on both rail stocks at this point due to short- to medium-term headwinds, I think there's a huge opportunity to take a page from the great Warren Buffett by being "greedy while others are fearful" with CN Rail — a stock that's trading at a slight discount to its historical average based on forward P/E and P/B.

The dividend yield has also swelled to a point where we may see 2% over the next year. Although that may not seem like much, when you consider the double-digit annual dividend hikes that are to be expected, I think we'll look back on this recent weakness as nothing more than an opportunistic entry point to back up the truck.

Furthermore, medium-term headwinds appear to already be baked in to shares at these levels, whereas CP Rail could still stand to see more downside over the near term, especially if the strike lasts longer than expected.

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