Which Is the Better Railroad for Your Portfolio?

Description

There are few investment options on the market that are as stable as investing in a railroad. The vast networks of tracks that intersect with every major populated area on the continent make it impossible for a new player in the railroad industry to challenge the supremacy of the current duopoly of railroads in Canada.

Why invest in railroads?

Railroad investments are peculiar investments. Most investors often bypass railroads because of the stereotypical view that they are remnants from the last century with no or very little appeal in today's high-tech, fast-moving world.

This couldn't be further from the truth, however, as railroads form the backbone of the North American economy transporting freight through every major city on the continent to factories and distribution centres elsewhere.

In terms of freight, railroads haul a diversified mix of products, with everything from automotive parts and fertilizers to crude oil and raw materials.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) both offer compelling reasons for investors to consider, but which of these two is the better investment?

Let's look at both.

Canadian Pacific

Canadian Pacific operates a network of 20,000 kilometres spanning from Vancouver to Montreal, and from Edmonton in the North to serving the U.S. Midwest as well as the major North American hubs of Detroit, Chicago, and New York City.

In the most recent quarter, Canadian Pacific realized an uptick in revenue of 4%, which came in at

$1.66 billion. Earnings for the quarter came in at $2.41 per diluted share, representing an 18% decrease over the $2.93 reported in the prior year.

In terms of efficiency, Canadian Pacific's operating ratio surged 510 basis points in the most recent quarter, coming in at 67.5%.

Canadian Pacific offers investors a $0.65 per share quarterly dividend, which at the current price amounts to a yield of just under 1%, which takes into consideration the 15.5% hike to the dividend announced earlier this month.

Canadian Pacific currently trades at just over $241 with a P/E of 14.69.

Canadian National

Canadian National is the larger of the two railroads, with 32,000 kilometres of track connecting the west and east coasts of the country and cutting a swath through the U.S. Midwest with a terminus at the U.S. Gulf Coast. The access to three coastlines is a unique point to mention, as no other railroad on the continent can match that claim.

In the most recent quarter, Canadian National reported net income of $741 million, which was a 16% decrease over the same quarter last year. Earnings for the quarter came in at $1.00 per diluted share, down by 14% over the prior period.

Revenue was also down in the first quarter, coming in at $3,194 million, down $12 million over the same quarter last year.

Canadian National's operating ratio came in at 67.8%, higher than the previous period.

The weaker than expected results by Canadian National were attributed to the long and harsh that which followed an unusually large harvest period. System-wide delays during the quarter caused the railroad to meet just a small fraction of its deliveries.

In terms of a dividend, Canadian National offers investors a respectable and growing 1.79% yield.

Canadian National currently trades at just shy of $109 with a P/E of 15.35%.

Which is the better investment?

Railroad investments offer investors the protection of a reliable income and stable business model that is protected by what is arguably the largest moat on the market.

In my opinion, Canadian National is the preferred investment option at this time. Apart from the larger network and offering an impressive dividend that is double that of Canadian Pacific, Canadian National still has significant upside.

Despite the weaker results in the most recent quarter, the delays were weather-related and have since cleared. In addition, Canadian National announced a massive investment, with $400 million earmarked for new track infrastructure in the west of the country.

CATEGORY

1. Dividend Stocks
2. Investing

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. Dividend Stocks
2. Investing

Date
2025/08/28
Date Created
2018/05/28
Author
dafxentiou