The Best Railroad Investment for Massive Long-Term Growth

Description

I still get amazed at how so many investors bypass railroad investments because there is this notion that they are old tech from over a century ago that have little role to play in a modern economy.

While the first part of that statement is true, there is still a massive upside and necessity for railroads in a modern economy. In fact, railroads still transport more freight than any other method, and they are often noted as acting as arterial veins for the entire North American economy.

Let's take a look at the two largest Canadian railroads — **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) — and determine which of these two companies warrants a spot in your portfolio.

The case for Canadian Pacific

Canadian Pacific the lesser known of the two railroads, but that doesn't make the railroad any less of an investment.

In the most recent quarter, Canadian Pacific reported revenue of $1,750 million — an increase of 7% over the same quarter last year. Operating income for the quarter saw an improvement of 3%, coming in at $627 million, with adjusted diluted earnings per share coming in 14% better over the prior year at $3.16.

Canadian Pacific's operating ratio for the quarter saw an increase of 140 basis points to 64.2%.

While Canadian Pacific offers some growth potential, where the company comes up short is in regards to its dividend, which provides a quarterly yield of just 0.95%.

The case for Canadian National

Canadian National is one of the largest railroads on the continent and is the only one that has access to three coastlines. This factor alone makes the company an intriguing investment option for those investors looking at a broad mix of diversified freight options over a larger area. Apart from its larger network, there are two compelling reasons in favour of investing in Canadian National.

First, Canadian National has shown incredible tenacity to overcome difficulties. After a particularly harsh winter, Canadian National struggled to meet its deliveries last February, which ultimately resulted in less-than-stellar results and a major backlash against the company. In response, Canadian National faced those challenges straight on and announced a series of infrastructure investments, new locomotives, and a hiring spree aimed at reducing the backlog and improving service.

Not only did the company surpass expectations and clear that backlog, but Canadian National followed up with an incredible set of results in the subsequent quarter.

Canadian National saw an operating ratio of 58.2% with net income of $1.31 billion, or $1.77 per share, reflecting an increase over the $1.03 billion, or $1.36 per share, reported in the same quarter last year.

Selecting the better rail investment

Both railroads hold potential, but the better investment for investors to consider adding to their portfolios is Canadian National, which comes down to the following two reasons.

First, the larger network, along with its exclusive access to three coastlines on the continent, puts Canadian National in an advantageous position over its smaller, more localized rival. This not only exposes Canadian National to additional markets but also different types of freight that may be exclusive to one region, such as the refineries along the U.S. Gulf Coast.

Second, an investment in Canadian National earns a respectable 1.59% quarterly dividend, which, while not the greatest yield in the market, is significantly more than the paltry sub-1% offered by Canadian Pacific. Once you factor in the growth potential as well as the growth of the reinvested dividend, Canadian National emerges as the better investment.

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