Canadian Pacific Railway Limited (TSX:CP) and Canadian National Railway Company (TSX:CNR) Are Buying Back Shares Quickly: Should You Join?

Description

You could be forgiven if you thought **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) and **Canadian National Railway Compan**y (TSX:CNR)(NYSE:CNI) were in the same business. Sure, both operate railroads across huge swaths of North America, but their risks and potential rewards are very different.

Since 2001, shares of Canadian National have risen by roughly 820%. Shares of Canadian Pacific, meanwhile, have rocketed higher by more than 1,600% over the same period. If you had invested in either company at the beginning of the century, you would have looked extremely savvy, but by choosing the correct stock, you would have had double the return.

Over the past 12 months, Canadian Pacific stock is up only 4%, while shares of Canadian National actually fell by 3%. Has the meteoric rise of both companies come to a halt, or are shares now on sale? Judging by both companies' aggressive stock buyback programs, it appears that their management teams believe their best days are ahead of them.

Both railroad companies are buying back their own stock

In October, Canadian Pacific reported record sales driven by a record number of crude oil carloads. Crude-by-rail has been the single largest growth driver in the railroad industry throughout the past decade. With rapidly rising production from both shale and oil sands regions, there hasn't been enough pipeline infrastructure to transport the massive energy output.

For example, the company shipped 23,000 carloads of crude oil in the third quarter of 2018, 300% higher than the year before. Adjusted operating cash flow should surpass $2.5 billion this year. Free cash flow should also surpass $1 billion. These results should help fuel the company's share repurchase plan.

In October, it authorized a 5.7 million stock buyback program, which equates to 4% of the entire company. That same month, an analyst from Stifel called Canadian Pacific "one of the best-managed and most efficient railroads in the world." Judging by the companies long-term results, it's tough to argue otherwise.

Canadian National also instituted an accelerated share buyback in October, intending to repurchase 5.5 million shares, roughly $400 million worth. Compared to Canadian Pacific's $1 billion buyback program, Canadian National's appears much less aggressive, but it's important to note that these repurchases will be completed over the next 90 days. So, in just three months, the company anticipates buying back nearly 1% of the entire company. It's also important to note that before its most recent program, Canadian National completed a $2 billion share buyback program.

Thanks to large capital investments in 2018, Canadian National should have ample free cash flow in 2019 to support ongoing share repurchases, plus its growing 1.8% dividend. By the end of 2018, the company should have spent about $3.5 billion in capital expenditures.

Keep an eye on energy prices

Long-term, the demand for shipping goods will continue to increase. Even with ample pricing power, shipping by rail remains one of the most economically attractive methods of moving goods across long distances. The massive moat nearly every railroad has isn't set to disappear anytime soon.

Crude-by-rail, however, is more volatile. With energy prices falling lower, many oil sands producers in Canada are struggling to turn a profit. Large producers like **Encana Corp** and **Baytex Energy Corp** have huge debt loads and are fighting to avoid bankruptcy. There's no doubt that weak crude shipments would greatly impact both Canadian National and Canadian Pacific's record profits.

Long-term, companies like **Gibson Energy Inc.** are building terminals and pipelines to relieve the need to ship oil by railroad. While these assets will take time to come online, they remain the biggest risk to Canadian railroads. Apart from this risk, however, these business should be able to earn attractive risks for many years to come. Today, investing in either company is more of a bet on high oil prices than the traditional economics of a railroad.

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