Canadian Railways Are Still 2 of the Best-Quality Stocks on the TSX Index

Description

While grain quotas may not sound like they'd have much of an impact on transport companies listed on the TSX index, a cap placed last year on grain-transport revenue has led to the country's two big-name railways exceeding their entitlements under the new rules.

We're going to take a look at the data and see whether this news has affected the vital statistics for two of Canada's biggest transport stocks. Will the latest round of press exposure affect value, quality, or momentum stats? Let's trawl the data and review.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

Buying transportation shares on the TSX index has been a national pastime ever since our biggest stock exchange came into being. But is there a clear frontrunner in terms of value, quality, and momentum? A PEG of 2.9 times growth indicates that Canadian National Railway is overpriced, but let's look at a few more fundamentals and weigh this up.

Its P/E ratio of 12.8 times earnings is interesting, since it beats the TSX index but exceeds the industry by a few points. Perhaps the clearer ratio is its P/B of 4.2 times book. A somewhat high debt level of 67.6% of net worth and low dividend yield of 1.81% might not make for an attractive stock for new passive-income investors, however.

A past-year ROE of 33% is great to see and exceeds many other high-profile stocks that usually lag around 11-16%. An EPS of $7.84 is acceptable, meanwhile. A boost of 4.4% in expected annual growth in earnings over the next one to three years seems a pretty conservative estimate, considering recent oil-shipping deals that also relate to its competitor below. However, it's a positive outlook and combines with that high ROE and decent EPS to make for a good-quality stock.

How about momentum? Canadian National Railway gained 3.57% in the last five days, while its five-year market-comparative beta of 0.77 indicates sub-TSX index volatility. Meanwhile, its share price is overvalued by almost one-and-a-half times its future cash flow value, making for a passablemomentum stock all told.

Canadian Pacific Railway (TSX:CP)(NYSE:CP)

One of the top TSX stocks to watch for a dip, Canadian Pacific Railway displays better-quality indicators than its above-listed competitor: a ROE of 34%, EPS of $16.64, and 8.7% expected annual growth in earnings all exceed the stats for Canadian National Railway.

Canadian Pacific Railway's beta indicates exact market-matching volatility, so you can expect Canadian Pacific Railway to move in line with the TSX index. Combine this with overvaluation by about $100 a share compared to its projected cash flow value and a five-day gain by 5.87% and you have a decent momentum stock.

Where Canadian Pacific Railway comes to a halt, though, is in its value. While a PEG of 1.7 times growth could be worse, a P/E of 14.5 times earnings is a tad high, and that P/B of 4.8 times book is higher yet. As such, its dividend yield of 1.08% might be too low to entice new passive-income investors, while comparative debt at 116.2% of net worth may likewise be a disincentive for the risk-averse newcomer to invest for the long term.

The bottom line

With respective market caps of $73 billion and $34 billion, Canadian National Railway and Canadian Pacific Railway are defensive assets that can give some backbone to your passive-income portfolio. However, their yields are a little low, as are their expected outlooks. Overall, they're strong holds to moderate buys, though the real good news is that recent headlines don't seem to have hurt either stock's share price.

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