Should New Investors Steer Clear of These Transport Stocks?

Description

While *Planes, Trains and Automobiles* may be a lot of people's favourite John Candy movie, it's also a pretty solid Canadian investment strategy. Below are three representative stocks from these three transport industries, along with a few of the stats that a sharp-eyed would-be investor should be aware of. Let's take them for a test drive!

Air Canada (TSX:AC)(TSX:AC.B)

If you'd bought Air Canada half a decade ago, you'd have been rewarded by its five-year returns of 470% if you were still holding it today. While that's clearly an impressive percentage, when you contrast it with the market's 5% returns over the same period, you have a TSX index transport stock that's soared over the competition — even the Canadian airlines industry "only" returned 131.3% for the same duration.

Undervalued by almost nine times its future cash flow value, potential Air Canada investors have a heady mix of portfolio fuel here from a hefty five-year average past earnings growth of 41.7% to 50.1% expected annual growth in earnings. However, it's overvalued in terms of earnings and assets, with a P/E of 53.4 and P/B of 2.2.

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

Would-be investors in Canadian Pacific Railway should be reassured that the company makes good use of its investments, with an expected ROE of 30.5% over the next three years — something that seems reasonable on the heels of a past-year return on equity of 29%.

This popular TSX index stock pays a small dividend yield of 0.94%, which is augmented by an 8.7% expected annual growth in earnings. Its negative one-year past earnings-growth rate is alleviated somewhat by a 16.2% five-year average, though a so-so balance sheet (see a debt level of 131% of net worth) and overvaluation (from a P/E of 20.2 to a P/B of 5.8) suggest caution should be exercised.

Magna International (TSX:MG)(NYSE:MGA)

A high-quality TSX index stock in a tough industry that's faced a challenging year, and with a potentially bumpy economic landscape ahead, Magna International nevertheless has a fairly decent balance sheet and attractive valuation.

While its one- and five-year past earnings-growth rates of 4.1% and 6.8%, respectively, may be on the low side, they are at least positive, and with below-threshold debt of 39.3% of net worth, there's some indication that this stock is reasonably safe to hold for the long term.

Decent valuation is indicated by a P/E of 7.5 and market-weight P/B of 1.5, while a dividend yield of 2.91% is on the table. Though Magna International may be expecting a contraction by 2.2% in earnings, its involvement in the electric vehicle space is a potential boon.

The bottom line

Air Canada fans may want to balance a high debt level of 164.9% of net worth with a potential 26.6% future ROE; in other words, the potential for upside is there, though not without some risk, while railway investment is still seen as a defensive play and remains a core part of infrastructure investment. Fans of auto stocks and electric vehicles, likewise, have a moderately strong buy in Magna International, with its mix of value and passive income.

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vhetherington