TFSA Investors: Is Canadian Pacific Railway a Strong Buy Today?

Description

Canadian Pacific Railway (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) remain backbones of the Canadian economy, transporting more than $250 billion of goods annually from a diversified list of sectors such as the resource sector (grain crops), crude oil, manufactured products, and consumer goods.

Yesterday, Canadian National Railway reported that its first-quarter 2019 results that came in shy of expectations, but continue to show why this stock is a solid pick for your TFSA, sheltering you from taxes on your dividends received and capital gains realized, even though Q1 EPS of $1.17 was below expectations of $1.23, as cold weather slowed service and necessitated shorter trains, driving up costs.

Notably, management reaffirmed guidance for EPS growth in the low double-digit range in 2019 versus EPS of $5.05 last year as well as high single-digit volume growth in 2019 in terms of revenue ton miles.

I don’t believe that the miss is a big deal, however, as weather adequately explains it and as the company has reaffirmed its guidance. Also, in the short to medium term, crude by rail will continue to drive strength, assuming crude prices remain at levels where it is economically viable.

CNR stock is trading near all-time highs, and while the company has generated returns that have blown us away over the short and long-term, I think that investors should wait to add this stock on weakness.

Moving on to CP Rail, the railway that has been playing catch up. It has done so at an impressive pace, pretty much achieving a similar operating ratio as CNR despite being significantly behind years ago.

So CP stock has also rallied to all-time highs, as it too has been seeing strong momentum on the cost side as well as the revenue side.

Canadian Pacific Railway had a strong 2018 that blew past expectations, as improved pricing and an improved operating ratio (operating costs divided by revenue) boosted results.

This top performance has driven a more than 13% five-year CAGR in dividends.

Looking to the first quarter of 2019, volumes were negatively affected as extremely cold weather put a damper on activity, and as CP was unable to handle as much crude by rail volume as CN Rail due to capacity constraints.

Nevertheless, profit increased 25%.

I would add CP Rail stock on weakness, which will provide you with an attractive opportunity to add the stock to your TFSA.

Final thoughts

Canadian railways remain in the enviable position of operating in a fundamentally sound industry surrounded by a deep and vast moat that will keep them sheltered from market troubles, at least in the long term.

These stocks remain solid long-term holdings today and for the foreseeable future. Stocks that will continue to give your TFSA solid dividend income and capital gains, and stocks that are perfect long-term holdings for your TFSA that should be added on weakness.

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