Which Railway Is Best: Canadian National (TSX:CNR) or Canadian Pacific (TSX:CP)?

Description

Canadians are constantly looking for easy, stable investments to add to their TFSA and RRSP portfolios. Two of the best options out there have been, and remain, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). But which railway belongs on your buy list?

CNR

When the market dipped last December, CNR dipped along with it, falling to about $96.50 per share. The stock has rallied since then, trading at $124.36 at the time of writing — a substantial increase of almost 30% after hitting an all-time high of almost $128 per share in April.

The company's Q1 report for 2019 showed continued strong results for shareholders, with revenue increasing 11%, adjusted EPS growing 17%, and operating cash growing 32% to $997 million.

The company's diverse portfolio definitely helped create such solid results, as no one segment holds more than a quarter of the company's total revenues. In fact, this quarter, petroleum and chemicals gained 25% in revenue year over year, showing the need more oil suppliers to have a cheaper way of transport.

Management remained confident in its 2019 forecast to achieve high single-digit volume growth, "adding $350 million of top-line growth, while improving year-over-year car velocity" according to President and CEO JJ Ruest.

This earnings growth will help the company continue its plan to reinvest in its infrastructure and rail fleet, something competitor Canadian Pacific has already done. The company already invests an impressive 15-17% of returns on invested capital on such projects.

CNR also just raised its dividend 18% for 2019, offering shareholders a 1.73% dividend yield, and investors should expect that growth to continue, especially since the company is planning to buy back

22 million shares from investors.

If you’re waiting for this company to dip back to around $96, it’s unlikely that’s going to happen. Historical performance shows this stock manages to rebound quite quickly from any dip, so I would buy pretty much any dip. Analysts predict in the next 12 months the stock could grow to $140 per share.

That historical performance also shows how the company has increased dramatically in the last 20 years. An investment of $5,000 then would be worth $78,510 today.

CP

It may be more expensive, but CP was still hit by last December’s dip. The company fell to around $228 per share, rebounding to an all-time high of $309.50 per share just last week. The company has managed to stay around that share price, trading at the time of writing at $305.55 — an increase of 34%.

CP also saw an increase in its quarterly revenue when it released its Q1 2019 results. Revenue rose by 6%, its operating income rose by 1%, its diluted EPS rose a solid 28%, and its adjusted diluted EPS rose 3%.

After a challenging winter, admitted by both CNR and CP, the company remains financially strong thanks to its diverse shipping and strong balance sheet from cutting costs starting back in 2012.

Management expects the company to continue towards its volume growth in the mid-single digits in revenue tonne miles and generate double-digit adjusted diluted EPS growth for the rest of the year. This should be easier than CNR, as CP has already made the investments into its infrastructure that its competitor is in the process of doing at the moment.

CP hiked its dividend by a whopping 28% during its most recent results, currently offering a 0.87% dividend yield. The company expects that dividend to grow, stating it’s the fourth straight year CP has increased its quarterly dividend — an increase of 137% since 2014.

Now again, just like CNR, when this company dips, it isn’t for long, so I would buy on a dip, but don’t wait for it to hit the December lows it recently saw. This is yet another long-term hold, and analysts expect it to grow to even $350 per share in the next 12 months.

Looking at that historical performance, an investment of $5,000 18 years ago would be worth $52,495 today.

Which is the buy?

You can’t really go wrong with either of these stocks. With strong financials and investment into infrastructure, they both will be around for decades to come. But if I’m buying only one today as a stable investment towards a TFSA or RRSP, I’m going with CNR only because it offers a high dividend yield and some stronger growth. After its infrastructure investment is done, there might also be another boost that narrows the gap in share price between these two companies.

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