3 Transportation Stock Picks for July

Description

Transportation stocks fuel the entire economy. From railroads to highways, moving goods throughout the country supports nearly every individual and business.

It should come as no surprise that many transportation stocks have made investors incredibly rich over the years. Some have multi-decade histories of outperformance. A select few are true millionaire-maker stocks.

Want to get your slice of the pie? Here are your three top options this summer.

Ride the rails

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) is basically a monopoly. In many cases, businesses don't have an alternative to using its services. That was especially true during Alberta's oil glut debacle, when producers were forced to use massive amounts of crude-by-rail.

What's the number one sign of a monopoly? Pricing power.

Over the last 10 years, Canadian Pacific's revenues have only increased by 4.3% annually. Profits, meanwhile, have grown by 13.5% per year. Since 2014, free cash flow per share has nearly doubled.

From a financial standpoint, Canadian Pacific has been one of the strongest performers on the **TSX**.

While there should be some bumps along the way, the power of railroads will continue to strengthen. In most cases, apart from regions with ample waterways, rail is simply the most cost-effective way to ship goods. That's not changing anytime soon.

Shares trade at less than 19 times forward earnings—a discount to its five-year average.

Keep riding

Looking for another monopoly stock? Check out **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI).

Over the last decade, shares of Canadian National have delivered a total return of roughly 550%. Canadian Pacific only achieved total returns of around 450%. Still, both companies trounced the **S&P/TSX Composite Index** return of just 120%.

Canadian National controls several key routes that should see long-term demand growth. Its dominant market share in Western Canada, including Edmonton, Prince Rupert, Vancouver, Prince George, Saskatoon, and Winnipeg should allow it to capitalize on limited transportation infrastructure for energy projects, especially given that the company has export access to ocean terminals like New Orleans and Halifax.

Today, shares trade at 20 times earnings at writing. Over the next three to five years, analysts expect EPS to grow by 11% per year. Assuming the valuation multiple doesn't change, we could be looking at 70% upside or more by 2024.

Hit the highway

Mullen Group Ltd. (TSX:MTL) isn't another railroad stock. Instead, its focus is on the highway.

Headquartered in Alberta with operations in both Canada and the U.S., Mullen is one of North America's largest suppliers of trucking and logistics services. It also has an oilfield services segment that helps with specialized tasks like drilling rig relocation, conductor pipe-setting, transportation, and heavy oil processing.

The stock has struggled recently, but that's not due to its trucking business, where margins are in-line with their 30-year average of 14.9%. It's the oilfield services segment that has taken the hit, with margins down by one-third since 2013.

This asymmetry allows you to buy into the transportation business at a discount. Shares trade at 17 times forward earnings despite rebounding revenues and operating income. This isn't as much of a slam dunk as the railroad stock above, but you're getting a cheaper price in return.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
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