Better Buy: Canadian National Railway (TSX:CNR) or Canadian Pacific Railway (TSX:CP) Stock?

Description

As part of a well-diversified portfolio, Canadian investors should have exposure to one of Canada's railways. Although there are several operating in Canada, only two are publicly traded corporations.

With that in mind, which one should investors buy today? **Canadian National Railway** (TSX:CNR)(NYSE:CNI) or **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

Top dividend stock

As consumer defensive stocks, one of the most important features is the dividend. Neither company will impress with their yields. That said, CN Rail's current yield of 1.74% is much more attractive than CP Rail's 1.07% yield.

Furthermore, CN Rail owns one the longest dividend growth streaks in the country. At 23 years and counting, it owns the tenth-longest dividend growth streak and is a Canadian Dividend Aristocrat.

On the contrary, Canadian Pacific saw many years of dividend stagnation. It lost its status as a Dividend Aristocrat and only recently began raising dividends. It has raised dividends for a modest three consecutive years.

Winner: CN Rail's dividend is more attractive and has proven to be more reliable.

Top growth stock

While income is appreciated, investors also like to see their investments grow. Over the past five years, CP Rail has grown earnings by 12.40%, which is 334 basis points above Canadian National's five-year growth rate.

Looking forward, both companies are expected to grow earnings in the high single-digits. CP Rail's five-year rate of 8.77% is just above CN Rail's expectation for 8.51% growth.

Can they achieve expected growth rates? The odds are in their favour, as neither company has missed yearly estimates over the past five years.

Winner: Both companies provide stable and reliable growth, but as the smaller company CP Rail should consistently eclipse its peer's growth rates.

Top value stock

We know which stock offers the best growth rates and the most attractive dividend. The question now becomes: which offers the best value today? As of writing, Canadian Pacific is trading at 22.1 times earnings, which is a premium to Canadian National's ratio of 20.17.

It is important to note however, that both are trading well above their historical averages. On a forward basis, CP Rail is trading at 16.07 times 2020 earnings, while CN Rail's ratio drops to 17.8. Is this more attractive? Yes. Are they cheap? No.

They also have high P/E to growth (PEG) ratios (above 2.5). This is an indication that they are overvalued, as their growth rates are not keeping up with share prices. In other words, their stocks have gotten ahead of themselves.

Winner: Neither company is undervalued. In fact, both can be considered overvalued at today's prices.

Foolish Takeaway

There is no clear winner in this battle. However, if you're an income investor, then CN Rail would be a clear choice. Likewise, if you are looking for a railroad that offers a little more growth, CP Rail is likely to win out.

At today's prices however, there is no reason to rush in and buy either company. They are fully valued and are trading near 52-week highs. The best course of action would be to take half a position today and wait to see whether the stocks pullback before topping up your position.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2019/07/11
Author
mlitalien