



Battle of the Rail Stocks: CN Rail (TSX:CNR) vs. CP Rail (TSX:CP) ... Which Should You Buy?

Description

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)), Canada's top two rail plays, compete with one another for the investment dollars of Canadians. While both names are sensitive to the state of the North American economy, both names have their own company-specific strategies and differing valuations that are always changing.

At any given point in time, there's a best rail for your buck, just like there's a [best bank for your buck](#). So, without further ado, let's take a closer look at each name to determine which, if any, is a [better buy in late July](#).

CN Rail

It's tough to match the dividend-growth potential of CN Rail. It's the king of the rails, with industry-leading fundamentals and an operating ratio that's nothing short of enviable. Despite experiencing a few CEO changes over the last few years, the company is still chugging along, getting prepped for increased freightloads without compromising too much in terms of operational efficiency.

CEO J.J. Ruest, an unlikely man for the job after ex-CEO Claude Mongeau's departure, has proven he has what it takes to take North America's largest railway to the next level. CN Rail has one of the widest moats out there with its expansive rail network and ability to pass value to its customers.

As of the latest quarter, unfavourable winter weather conditions were a major culprit that weighed on CN Rail's operating ratio (lower is better), causing it to increase to 69.5% from 67.8%. As the Canadian economy picks up in the second half, look for CN Rail to make up for lost time on the efficiency front, as management continues to scale up responsibly.

CP Rail

The number two rail player in Canada, although not as "growthy" as it was back in the Hunter Harrison

days, is still a force to be reckoned with. Like CN Rail, CP Rail is well positioned to improve its operating ratio after the bout of poor weather in the early part of 2019.

While I don't expect CP Rail to compete with CN Rail on the operational efficiency front over a long-term time span, CP Rail has been doing a lot of things right under Keith Creel, who was well versed in precision railroading under Hunter Harrison. Margins have been improving thanks to effective cost controls and operating leverage as of the first quarter.

CP Rail stock trades at 13.7 times EV/EBITDA, slightly higher than CN Rail, which trades at 13.2 times EV/EBITDA. Given CN Rail has a larger moat and CP Rail isn't the same growth king it was many years back, I'd have to give the nod to CN Rail at this juncture.

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