Battle of the Railroad Stocks: Canadian National (TSX:CNR) vs Canadian Pacific (TSX:CP)

Description

It's been a mixed summer for the **TSX**, with many sectors such as marijuana and energy posting decidedly negative results. But for the railroad industry, things are looking up.

After **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) posted a Q2 earnings report that beat analysts estimates, railway stocks rallied before cooling off slightly on Wednesday.

Next week, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) will be releasing its earnings, which will help illuminate whether CP's good fortunes will extend to the industry overall.

When it comes to rail, Canadian National and Canadian Pacific are the two biggest names in town. Although CN is the bigger of the two, CP often posts stronger growth, so different investors may benefit from holding one as opposed to the other.

If you're not sure which railway to buy, the following are three considerations to take into account.

Earnings

Canadian Pacific's earnings were absolutely phenomenal in Q2, growing at 70% year over year (36% in adjusted terms) and beating analyst estimates. Compared to the $4.18 analysts were expecting, CP earned $4.3, an incredible beat that sent the stock soaring.

CN's latest earnings were somewhat more tepid. Revenue was up 11%, not far off CP's 13%; earnings, however, were up only 8% year-over-year. CN had a difficult time in the harsh winter of 2019, so it's not surprising that its earnings were weak. CP posted weak numbers for the quarter as well.

On that note, the CN and CP income statements cover different quarters: it's not until next week that CN will be releasing its earnings for Q2, which CP has already released.

Long-term trends

Both CN and CP have been steady growers over the long term, increasing both earnings and share prices year in and year out. However, CP's trend is somewhat more volatile, with more pronounced price/earnings swings than investors have come to expect from CN.

This reflects the fact that CP is a smaller company with a more limited service area, which makes it more vulnerable to local economic factors.

What does the future hold?

The future of rail in general depends on two things: economic growth and commodity demand.

Rail transport is a vital component of the economy, and it reliably grows or shrinks depending on what the broader economy is doing. If you expect North American economic growth to be strong, then you can expect railways to be profitable as well.

Demand for commodities is a big factor as well. Both CN and CP make much of their money off petrochemicals and grain, so the level of demand for these goods will determine their fortunes to a large extent.

Particularly important is the level of demand for these goods in the U.S., as both of these companies make a lot of money shipping freight down south.

Bottom line

As for which of the two is the better buy, that depends on your risk profile. CP is more volatile, but has more potential upside in the best of times; CN is more stable and will be less affected by economic downturns.

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)
4. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/27
Date Created
2019/07/20
Author
andrewbutton