CN Rail (TSX:CNR) vs. CP Rail (TSX:CP): Which Is a Better Buy Today?

Description

Canada's quality railroad companies, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) have been excellent long-term investments.

For example, since 2007, before the last recession, they have delivered total returns of about 13% per year, which roughly doubled the Canadian stock market returns.

Let's compare the two to see which may be a better buy today.

The businesses

CN Rail is a transcontinental railway and one of seven class I railways in North America. It is a top choice for customers because of its fully integrated rail and transportation services and network that connects the three coasts of the Atlantic, the Pacific, and the Gulf of Mexico.

CN's trailing 12-month revenue and free cash flow were nearly $15 billion and about $2 billion, respectively. The quality company is highly efficient with a recent operating ratio (i.e., operating expenses as a percentage of revenue) of 61.6%. Its five-year return on invested capital of roughly 17% is also top-notch.

CP Rail is a transcontinental railway, linking major ports on the west and east coasts of North America. Its trailing 12-month revenue and free cash flow were more than $7.6 billion and $1.1 billion, respectively.

The railroad company was even more efficient than CN with a recent operating ratio of 58.4%. Its five-year return on invested capital of roughly 13.7% is decent.

Valuation and growth

At $113 per share as of writing, CN Rail trades at a price-to-earnings ratio of approximately 18.7, while the analysts estimate it will grow its earnings per share by 11-12% per year over the next three to five years. So, the stock is reasonably valued.

At $283 per share as of writing, CP Rail trades at a price-to-earnings ratio of roughly 17.6, while the analysts estimate it will grow its earnings per share by about 12% per year over the next three to five years. So, the stock is a better value than CN.

Dividend and dividend growth

CN Rail offers a yield of 1.9%. Its dividend is more than covered by its free cash flow generation; the payout ratio was about 70% of free cash flow and 33% of earnings in the trailing 12 months.

Additionally, CN has an incredible dividend track record for having increased its dividend for 23 consecutive years with a 15-year dividend growth rate of 17.3%.

Going forward, its dividend hikes will more or less match its earnings growth rate at about 11%!

CP Rail offers a yield of 1.2%. In the trailing 12 months, it paid out 32% of free cash flow and 16% of earnings as dividends. Over the past 15 years, CP stock increased its dividend by 13.5% per year on average.

Is CN or CP a better buy today?

CP Rail offers a little more value and a little more growth. So, buying the stock today should deliver greater returns than buying CN shares. However, CN's dividend increases have been more consistent. So, conservative investors might choose CN over CP.

Recently, both stocks have pulled back by about 10%, and interested investors should review them for potential long-term investment.

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kayng