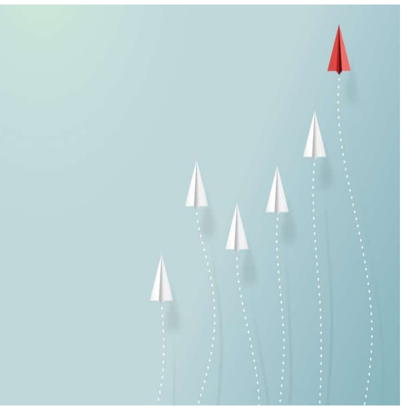

2 Canadian Stocks to Buy in 2020 After Strong Earnings

Description

The past week was one of the busiest in the markets. Earnings season is in full swing and some of the most notable stocks in the country have started to report quarterly earnings.

Earnings season is important for investors not only because it provides insight into a company's performance, but also because it can shed light on the overall economic sentiment.

Two companies that reported earnings last week — **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) — are such companies.

Railways are considered bellwethers of the economy. In fact, when asked what Warren Buffet's number one economic indicator was, he pointed to rail volumes. This is a very intuitive observation, as rail is the primary means of transporting goods across the country.

This past week, the duopoly reported fourth-quarter results. Are they a buy after earnings? Let's take a look.

CN Rail

Let's start with Canada's largest railroad. CN Rail posted strong quarterly results in which it beat on both the top and bottom lines. Earnings of $1.25 per share beat by $0.03 and revenue of $3.58 billion beat by $40 million.

Don't fear the year-over-year drop in EPS (22%) and revenue (6%). This was expected after the company suffered a very public eight-day labour strike. Now that labour unrest is behind them, the future looks bright.

In 2020, the company expects volume growth in the form of revenue ton miles (RTMs) to grow in the low single-digits. This is a positive sign amid fears of negative growth in the coming year. This should translate into mid-single digit EPS growth, and, more impressively, $1.2 billion jump to free cash flow to $3.0 billion.

On the back of strong earnings, Canadian National announced a 7% increase to the quarterly dividend. Once it exits the year, it will have raised the dividend for 25 consecutive years and will achieve Dividend Aristocrat status in the U.S. — an important and impressive feat.

CP Rail

Similarly, CP Rail recorded a strong quarter in which it also beat on the top and bottom lines. Earnings of $4.77 per share beat by 10 cents and revenue of $2.07 billion beat by $50 million. As CP didn't have a strike to contend with, this represented YOY growth of 5% and 3%, respectively.

Growth came despite an overall drop in volumes, as per a company statement, "Global economic uncertainty caused by geopolitical and macroeconomic challenges slowed rail volumes across North America."

Once again however, it was the strong outlook that led the company to post a 1.4% gain on the day of earnings. Management expects high single-digit to low double-digit EPS growth on the back of mid-single digit volume growth (RTMs).

Worried that Canadian Pacific didn't raise the dividend while Canadian National did? Don't be. CP Rail doesn't typically announce their annual raise until the spring.

Foolish takeaway

The strong volume growth is a relief, as analysts had been expecting a difficult 2020. As blue chip companies, the railways are not stocks that you time. These are a buy at any time, and given the current outlook by both management teams, they should outperform in 2020. Both stocks are worth considering for your TFSA and RRSP.

Notably, the strong outlook bodes well for the broader market — and fears of a recession might well be overblown. Given this, the record bull run may be extended for another year.

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