
Are Canadian Railways Buys During the Market Crash?

**Description**

In Canada, there are a number of must-own stocks that are finally worth buying. Telecoms, banks, and utilities are at a point where anyone could buy them here and hold them for the long-term with little worry. There is another class of investment that's equally a must-own but which I am as of yet hesitant to add.



This investment is the Canadian railroads, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

These companies have been long-term winners for investors, so owning them on weakness is generally a good strategy. However, at this level have the rails fallen enough to buy today?

## The rails are a buy if you don't own them already

The simple answer is yes. If you're a long-term investor, this is a good place to start building a position. These companies are oligopolies, essentially owning the freight-by-rail operations in Canada. They also have an extensive presence in the United States, so their long-term prospects look quite good.

Both CNR and CP pay fairly good dividends as well. CNR currently has a yield of over 2% and CP has a somewhat smaller dividend at about 1%. These dividends have been raised significantly over the past several years as well, albeit in much safer times. Last May, CP raised its dividend by 27.5% and CNR raised its payout by 7% earlier this year.

There is a bit of a discrepancy here, but it's not because of the quality of the companies. CP has recently begun raising its dividend once again after a hiatus. The company had been conserving its capital a few years ago to make an acquisition.

After the acquisition fell through, CP began raising its dividend again at a substantial clip. CNR, on the other hand, has steadily raised its dividend over the years without pause.

The uncertainty facing the rails will likely impact their earnings in the short term. This, however, is the same situation facing practically every other company in the world, so it's not unexpected.

The rails depend on their extensive networks that cross into the United States. With closed border crossings, there will almost certainly be a strong impact on their financial results.

## Should I add to an existing position?

The answer becomes somewhat more complex if you already have a position in either stock. These are great long-term holds, but with the economy teetering on a razor's edge, there will likely be a better time to buy.

I'm hesitant to add to my existing position at the moment. We are entering new territory with regard to the global shutdown and its ultimate impact on the global economy.

In my opinion, anyone with an existing position can hang on to what they have, but there will more than likely be another chance to buy more shares at a reduced price at a later date.

## The bottom line



While CNR and CP have fallen from their highs, and are worth picking up if you have not added either to your portfolio yet. These are great long-term growth companies that operate in an oligopolistic environment. When the economy gets on its feet again, it will likely continue to raise dividends and provide excellent capital returns.

If you already have a position, however, there will likely be a better time to buy. The economic outlook is extremely uncertain at the moment.

There is no way to know how long, deep, or destructive the recession will be. As a result, there will almost certainly be a better time to add to your position. There is no hurry to add to an existing position at this time.

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