Recession: Should I Buy Canadian Railway Stocks?

Description

I love to buy Canadian railway stocks. I have personally owned **Canadian National Railway** (TSX:CNR)(NYSE:CNI) for a while, and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) is also a good stock. I think you can't really go wrong with either of them. These companies are stable dividend growers operating as an oligopoly.

The infrastructure the railways provide is invaluable to our nations. Railway lines are limited, and no one is making any more of them at the moment. They have been wealth creators for generations.

Does this mean that they will be strong investments going forward? Considering the crisis in the energy market, the global shutdown, and the possibility of a prolonged recession, should you buy Canadian railway stocks today?

Rails are fantastic

I have to start off by saying that every Canadian investor should own railways in their dividend portfolios. Even though capital appreciation has stalled somewhat, the stocks have been excellent performers over the long run. They offer their services to a wide variety of businesses and operate in multiple geographies.

Of course, their businesses will be impacted in the short term by the pandemic. It is interesting to note, though, that even in the midst of all these issues, CNR was able to move a record amount of grain in April.

They have great dividends

Both of these companies have excellent dividends. They are not massive dividends when looking at the yield. After all, CNR only pays a yield of about 2% and CP has only half that at 1%. These dividends are not going to bring in much more income than a GIC, considering the extra risk of owning equity.

The reason these yields are great is due to their growth. CNR just increased its dividend by 7% in January this year. CP raised its dividend by 27.5% a year ago. It will be interesting to see if they raise the dividend again this year as well. The quickly growing yield combined with capital gains makes for a winning combination.

Both companies have very low payout ratios, leaving room for dividend stability and further increases. CNR currently has a payout ratio of about 30% of earnings and CP's is even lower at under 20% of earnings.

Should I buy them today?

Well, the vague answer is yes and no. If you already have a decent holding in railway stocks, I would probably not buy any more shares at the moment. These stocks are cyclical, meaning that there could be a lot more pain to come in their share prices if the economic situation begins to look worse than it already is. If the share price begins to come off substantially, that would be the time to buy.

If you do not own any shares, however, you could open a position today. These are great long-term investments with decades of dividend payments and growth. Their payouts are about as safe as you can get in Canada, and the businesses will be secure for decades.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. 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. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/08/25
Date Created
2020/05/10
Author
krisknutson