Should You Buy Royal Bank (TSX:RY) or CN (TSX:CNR) Stock?

Description

Canadian investors are searching for reliable dividend stocks to add to their Tax-Free Savings Account (TFSA) or RRSP portfolios.

The market crash in March reminded us that stocks come with risks. The subsequent sharp recovery in top-quality names shows the value in owning companies with the strongest businesses in each sector.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if one deserves to be on your buy list today.

Royal Bank

Royal Bank is Canada's largest financial institution with a market capitalization of $130 billion. It is also one of the most profitable among the world's largest banks. In 2017-2919 Royal Bank reported return on equity (ROE) of better than 17%.

The fiscal Q2 2020 results saw weaker reported profitability as Royal Bank booked $2.8 billion in provisions for credit losses (PCL) to cover potential defaults.

Despite the challenging times, however, the company still earned $1.5 billion in net income in the quarter. ROE was 7.3%, even with the PCL. This would be considered a great result in regular times for top European banks.

Royal Bank finished Q2 with a CET1 ratio of 11.7%, which means it has a strong capital position to ride out the recession.

Uncertainty remains on how the recovery will unfold. A V-shaped rebound would likely result in lower actual loan losses than predicted. A prolonged recession with high unemployment maintained through the end of next year could force Royal Bank to take larger loan loss charges.

The dividend should be safe. Royal Bank's current payout provides a yield of 4.7%.

The stock trades for $92 at the time of writing. Investors who bought at the March low of $72 are already sitting on decent gains. The stock was $109 in February, so there is still strong upside potential.

A $10,000 investment in CN 20 years ago would be worth $100,000 today with the dividends reinvested.

CN

CN is an important player in the efficient operation of the Canadian and U.S. economies. The company moves roughly $250 billion worth of goods every year across Canada and through the heart of the United States.

CN is the only railway with tracks connecting ports on three coasts, giving it an advantage when securing business from domestic and international clients. The U.S. operations generate strong revenue in American dollars, providing a nice boost to the bottom line when the U.S. currency strengthens against the loonie.

CN is very profitable and generates strong free cash flow to cover capital projects and the dividend. The railway spent nearly $4 billion last year on network upgrades, new locomotives, additional rail cars, and tech investments to ensure it remains competitive and has the capacity to meet customer needs.

CN has a compound annual dividend growth rate of about 16% since the company went public in the 1990s.

Long-term investors have done well with the stock. A $10,000 investment in CN just two decades ago would be worth $240,000 today with the dividends reinvested.

The stock trades at $121 right now, slightly above where it started the year. The March low was $92 per share.

Is one a better bet?

Royal Bank and CN should both be solid picks for a buy-and-hold TFSA or RRSP portfolio.

If you only buy one, I would probably go with Royal Bank today. The stock likely carries more near-term risk, but appears cheap based on an assumption the economy will recover through 2021.

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2. NYSE:RY (Royal Bank of Canada)

3. TSX:CNR (Canadian National Railway Company)
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