2 TSX Railroad Stocks to Buy

Description

Canadian railroad stocks are great buys on the **Toronto Stock Exchange**. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) hold substantial market power in North America. Market power boosts margins, meaning higher returns for shareholders.

If you are looking for safe, long-term investments in the stock market, railway stocks are dependable.

Canadian National Railway stock has increased in market value by 2.23% this year. Likewise, the Canadian Pacific Railway saw a price boost of 3.84% since January. By comparison, the **S&P/TSX Composite Index** level percentage change is -9.70%.

Canadian National Railway

Canadian National Railway stock is expanding its infrastructure across Alberta in a $305 million plan to boost capacity. The demand for railway transportation is outstripping supply.

The project will replace 71 miles of railroad, maintain 28 road surfaces, and build 210,000 new railroad ties. Even better: these improvements will improve the safety and health of Canadian citizens. Increased railway capacity will reduce greenhouse gas emissions by transferring crucial travel to the railway from roads.

Canadian National Railway stock boasts a profit margin of 29.77%, meaning that shareholders can expect good returns from this dividend payer. In fact, the diluted earnings per share (EPS) is decent at $6.18.

Further, the trailing 12-month return on equity (ROE) is 24.43%. ROE measures how effectively management earns returns for shareholders. The official calculation of ROE is the company's assets minus debt divided by shareholders' equity.

Canadian Pacific Railway

Canadian Pacific Railway stock has a similar profit margin to the Canadian National Railway of 29.93%. Large profit margins tell investors that the company is making money after interest expenses. This isn't surprising for a company in a transportation duopoly.

Canadian Pacific's trailing 12-month ROE of 35.08% tells us that the company may be operating more effectively than its competitor.

What's more, the diluted EPS is very high at $17.44 per share due to the lower shares outstanding than Canadian National. Looking at the $46.56 billion market capitalization, Canadian Pacific Railway has a market capitalization of about half of Canadian National's $84.9 billion.

Given all this, Canadian Pacific is the more expensive option relative to Canadian National. The stock traded for around $342.65 per share on Monday. Canadian National Railway is more affordable at $119.11 per share.

Should you buy top railroad stocks?

Publicly traded companies with market power tend to be safe, high-margin stocks to buy for any TFSA or RRSP. Market power means less competition and a higher degree of safety for your retirement portfolio.

Both Canadian Pacific Railway and Canadian National Railway have betas of less than one. A beta of less than one indicates that the asset carries less than the market average risk. In uncertain economic times like now, stocks with low betas can reduce the volatility of a portfolio.

If the year-to-date price performance of these stocks is any indication, both these stocks are safe options during the COVID-19 pandemic. There are never any guarantees with investing, but I like to stick to top-name players with market power.

Canadian railway stocks fit my description of good investments regardless of economic circumstances, which is why I am recommending them to you. When you invest in stocks this year, consider dividend payers with a good reputation like these two railway stocks.

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Date
2025/08/27
Date Created
2020/06/29
Author
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