CRA Savers: Is CN Rail a Good Stock to Buy?

Description

Last week was the third week in a row to end on an uptick. The TSX had finally got back into its pre-crash groove, with gold stocks and railways seeing sustained positivity. But can this week keep up with last week's bullish rally? One way to gauge investor sentiment is through an asset type that is strongly correlated with the performance of the economy itself: railways.

Canadians making use of CRA tax credits, such as the digital news subscription tax credit, should think about putting it aside. This non-refundable tax credit applies to qualified Canadian journalism organization (QCJO) payments. Up to $500 can be claimed. By earmarking small amounts of money like this for reinvestment, Canadians can build positions in the country's top stocks.

A strong industry to buy stocks in

Since Canada's rail networks are so closely connected with its major industrial areas, it stands to reason that they might reflect our economy as a whole. Our two largest such names have been reassuringly resilient to 2020's destructive market forces. **CN Rail** (TSX:CNR)(NYSE:CNI) is up 7% year on year, while **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) has appreciated by 16.2%.

While these aren't the kinds of big gains seen by gold stocks in the last 12 months, this kind of steady growth is more sustainable. However, straight away, investors can see that CN Rail might be the better-valued play. Let's explore further, though, and see which of these two stocks is most deserving of a place in a TSX stock portfolio in the current market.

CN Rail's 36-month beta of 0.6 pinpoints just how low volatility this ticker really is. Canadian Pacific is a little less resilient at 0.69, but not by a huge margin. Still, that's almost an entire point, and for investors with little appetite for risk, it could make all the difference. So far, CN Rail is in the lead.

In terms of dividends, CN Rail's 1.8% yield easily beats Canadian Pacific's 0.9%. But this isn't the only factor that should decide which railway stock Canadians opt for. Investors should also check under the hood and pick over a stock's market ratios. However, once again, CN Rail comes out on top.

CN Rail beats the competition for value

In terms of value, CN Rail's price-to-earnings (P/E) of 21 and price-to-book (P/B) of 4.8 denote a fairly good investment, if a little bloated in terms of assets. These ratios undercut Canadian Pacific's P/E 21.3 times earnings and P/B of 7.2 times book. In terms of their book valuations, both stocks look overbought. Nevertheless, while their difference in price compared with earnings is negligible, CN Rail is the better-priced stock in terms of tangible value.

In summary, investors seeking respite from the potentially worsening financials space should focus on other strong suits of the Canadian economy. Materials and industrials both saw an uptick on last week's vaccine hopes. Since railways are an essential part of the supply chain for these areas, both CN Rail and Canadian Pacific offer spread-risk plays on both asset types, with the former the more attractive play.

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vhetherington