



Rail Stocks Surge: Should You Buy CN Rail (TSX:CNR) or CP Rail (TSX:CP) Right Now?

Description

Canada's top rail stocks have been soaring of late, with **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) and **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) both up 44% and 50%, respectively, from their March lows. I've been pounding the table on Canadian railways amid the pandemic, noting that their shares would [likely recover way faster than the Canadian economy](#). With CN and CP at fresh all-time highs, now is as good a time as any to initiate a position in the two economic backbones before the price of admission has a chance to increase further once this pandemic ends.

Both CN and CP aren't the same steals they were a few months ago, but they're still worth picking up if you've got excess cash that's just sitting around collecting negligible amounts of interest in your savings accounts. This piece will have a closer look at each rail stock to determine which, if any, looks like the better buy at today's market crossroads.

CN Rail

First up, we have Class I railroad that people refer to as North America's most efficient railway. The company has been through its fair share of headwinds over the past two years. Almost everything that could go wrong went wrong in the months leading up to the COVID-19 pandemic. Blockades, strikes, and the coronavirus crisis have all taken a toll on CN Rail, but the company led by CEO J.J. Ruest has persevered to come roaring back far quicker than most expected it would.

Indeed, it's tough to stop the profit train in its tracks. Although there's a risk that COVID-19 woes could continue to weigh again should this pandemic worsen, dragging down the North American economy further, I wouldn't bet against CN Rail, as it has a knack for pole-vaulting over the muted expectations of analysts.

Moreover, CN Rail still looks undervalued, given the significant growth potential in 2021 and beyond. In the meantime, management will continue improving its operating ratio, further solidifying the company's reputation as one of the most efficient railways on the continent.

Today, the CN stock trades at 5.24 times book value and 16.6 times EV/EBITDA, both of which are on the upper end of the historical valuation range. CN Rail isn't cheap, but it doesn't deserve to be cheap given its demonstrated resilience amid this pandemic and the role it will have in lifting the Canadian economy out of its funk over the next three years.

CP Rail

CP Rail has also been rolling along in recent months. Like CN Rail, CP took a left hook to the chin delivered by the pandemic but was quick to get back on its feet under its own power.

Despite the now premium price tag, Fellow Fool Victoria Hetherington views CP Rail as a solid stock for the second half of the year, highlighting the fact that the company improved its operating ratio in a time of turmoil.

"CP operates on a precision scheduled railroading (PSR) model, which means that it can rein in costs while shipping exact volumes for the environment," wrote Hetherington in a [prior piece](#). "In fact, CP's operating ratio actually improved for the quarter. This key metric fell to 57% for the quarter from 2019's 58.4% as overheads were brought down."

Like CN, CP's resilience was nothing short of remarkable for its latest quarter. I think the company is in a spot to outperform in the latter two quarters, as the economy bounces back from one of the most unprecedented crises in recent memory. The company also delivered incredible EBIT margins and is worthy of a premium multiple, despite pandemic uncertainties.

Shares of CP trade at 7.3 times book value and 14.5 times EV/EBITDA, both of which are higher than historical averages. CP stock isn't anything but cheap here, but like CN, it deserves the premium given its stellar performance and positioning going into what's supposed to be an improved second half.

Foolish takeaway

Both rail stocks are a compelling buy right here. If I had to choose one, it'd have to be CN Rail, as I think there's more room for improvement on the efficiency front.

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Date

2025/08/24

Date Created

2020/08/20

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