



Should You Buy CP Stock or CN Stock Now?

Description

Canadian Pacific Railway ([TSX:CP](#)) ([NYSE:CP](#)) and **Canadian National Railway** ([TSX:CNR](#)) ([NYSE:CNI](#)) enjoyed strong rallies through the end of last year. In recent weeks, however, the stocks gave back some of the gains and investors are wondering if CP stock or CN stock is a [top buy](#) today.

Should CP stock be on your buy list?

CP trades near \$425 per share at the time of writing. That's down from the \$482 it hit last month, but still well above the 12-month low near \$250.

CP just reported Q4 2020 results. The company saw revenue come in at \$2.01 billion compared to \$2.07 billion in the same period last year. The steady performance in a difficult economy shows the railway continues to see strong demand for its services.

Adjusted diluted earnings per share rose by 6% in the quarter compared to Q4 2019.

In the past CP struggled with efficiency issues. That's no longer the case. The railway's Q4 2020 operating ratio, which measures how much the company spends to earn a dollar of revenue, came in at a record low of 53.9%.

Management expects adjusted diluted earnings per share to grow at least 10% in 2021.

The company's rail network includes 13,000 miles of track running across Canada and into several Midwest states where it connects with other railway operators that serve the U.S. market.

The winter months always pose short-term risks for CP. Bad weather in the mountains of Western Canada can disrupt operations, but the impact is normally short-lived. CP's business is 31% domestic (17% within Canada and 14% within the United States), 32% cross-border (24% Canada to the U.S. and 7% U.S. to Canada), and 37% global (32% Asia and 5% Europe).

The railway just announced plans for a [5-for-1 stock split](#). CP also intends to buy back up to 2.5% of its

outstanding stock in the next 12 months.

CP stock trades for close to 24 times earnings. The current dividend provides a yield of 0.9%.

How is CN different?

CN is a much larger rail business with a market capitalization of \$93 billion compared to \$57 billion for CP, and operates about 20,000 miles of track. CN is unique in the North American rail industry with routes that connect both Canadian coasts as well as the Gulf of Mexico.

CN produced solid Q4 2020 results and anticipates a strong 2021 as the economy slowly recovers from the pandemic. Revenue increased 2% and adjusted diluted earnings rose 17% in the quarter compared to 2019. The operating ratio improved to 61.4% from 65.2%.

Free cash flow for the whole year hit a record \$3.2 billion. CN expects a similar result in 2021. Earnings per share growth is targeted at high single digits.

CN just raised the [dividend](#) by 7% for 2021. The stock has one of the best dividend-growth rates on the **TSX Index** over the past 25 years. At the time of writing the dividend provides a yield of 1.9%. The stock is down to \$130 per share from the recent highs near \$149.

The board intends to buy back up to 14 million shares in the next year.

Is CP stock or CN stock a better buy?

CP's share price outperformed CN's in the past five years. Analysts attribute the difference to big gains in operating efficiency. Most of the low-hanging fruit on that front is already picked so it will be interesting to see how things progress.

CP anticipates slightly better earnings growth than CN for 2021. The stock also trades cheaper than CN today based on trailing earnings. On those metrics, CP has the edge.

CN enjoys the benefit of its unique connection to three coasts. A 1% advantage on the dividend yield is worth considering, as well, given the fact that GICs pay less than 1% right now.

Both CP and CN should be great picks for buy-and-hold investors. I would probably split a new investment between the two stocks today.

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