CP Stock or CNR Stock: Which Railway Looks Better Before Earnings?

Description

The Canadian railway duopoly continues to truck along in a heated battle for the top position. Whereas one remains in a financially lucrative position, the other has a lot to offer long-term investors. So, ahead of earnings, which should investors focus their attention: **Canadian National Railway** (TSX:CNR)(NYSE:CNI) or **Canadian Pacific Railway** (TSX:CP)(NYSE:CP)?

CNR stock

CNR stock was part of a hugely dramatic exchange last year. The railway looked like it would come out on top in the bid for **Kansas City Southern** but instead lost the bid. This came after the Surface Transportation Board in the United States chose CP stock over the company and was followed by major investors wanting an executive shake up.

But now, things have cooled down somewhat, and CNR stock looks like it's in a solid position. This could lead the way for investment in other areas. Furthermore, the company sailed past earnings estimates last quarter and could do so again.

However, analysts do want investors to note that CNR stock may see railroad traffic down due to winter weather. Volumes suggest a somewhat weak demand environment, with weak grain volumes and operational challenges. Never mind supply-chain issues. This could see earnings per share come down, with lower profitability in the first quarter.

Shares of CNR stock are up 4.73% year to date and 17% in the last year.

CP stock

CP stock is in a similar position, but with one big difference. The company has billions in debt to manage over the coming years after becoming the winner of the bid for KCS. In the short term, this could hurt investors. The company already made a major cut to its dividend to help pay down this increase in debt. And that won't be helped by the weak demand environment discussed above.

That being said, CP stock was in a strong position going into the move and remains so. The company took years to do away with inefficiencies and narrow its focus. Now, it will become the only railway to run through every country in North America.

So, despite some short-term issues, analysts are quite positive about the future benefits and growth of CP stock. And investors could start feeling the growth as early as next year should the deal be fully realized.

Shares are up about 9% both year to date and in the last year.

Bottom line

Both CNR stock and CP stock are in strong positions heading into the next quarter. However, they may indeed suffer from operational issues, supply-chain demands, and weaker grain production. Spring may shoot transportation back up going into summer, especially if the war in Ukraine continues to impact demand for items like oil and potash.

However, when it comes down to one or the other, analysts seem more convinced about the long-term growth of CP stock. It trades closer to value territory as well compared to CNR stock and offers the potential for enormous revenue growth from its merger.

But that's not to say you should count out CNR stock just yet. This company continues to make waves and find lucrative revenue streams and is merely part of the duopoly that likely won't move aside, even with the KCS merger.

In the short term, CNR stock may be a strong option, especially with a dividend of 1.82%. In the long term, however, CP stock may be your best bet for higher returns.

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