CN and CP Rail Stocks Look Like Screaming Buys Today

### Description



**CN Rail** (TSX:CNR)(NYSE:CNI) **and CP Rail** (TSX:CP)(NYSE:CP) stocks have endured quite the sluggish ride over the past year and a half. Undoubtedly, the COVID pandemic has weighed on growth prospects**,** and with a recession on the horizon, things may go from bad to worse. Still, it's a bad idea to count out the railways, especially the high-quality Canadian ones, which have been put to the test so many times in the past. They've made it through downturns and recessions. And although they depend on the health of the broader economy for their growth, CN and CP Rail stock tend to hold up far better than the rest of the market, with dividend raises and all the sort, even in the most trying of years.

With a 2023 recession likely looming around the corner, the railway stocks have been quite a drag. Still, they could storm out of the gate once the recession ends, and the stock market starts looking ahead to 2024 and beyond. At the end of the day, rail stocks are the perfect long-term holdings. They have a wide moat protecting their profitability prospects and tend to be great pick ups, regardless of what the economy is looking like.

Simply put, CN and CP Rail stocks should be considered any time they dip or drag their feet over the course of many quarters. They're robust businesses that can give you consistent dividend raises every single year.

Without further ado, let's check in with each railway play to see which, if any, is a better buy for your long-term portfolio.

## CN Rail

CN Rail is a rail behemoth that lost its bidding battle against CP Rail last year. Indeed, I predicted that CN was just trying to raise the price for its Canadian rival. I think losing the right to acquire Kansas City Southern was a blessing in disguise. Why? The deal would have accompanied a lot of debt and in a rising-rate world. Further, CN Rail already has an extensive rail network. The firm's focus should be investing in getting its operating ratio back on track (forgive the pun).

CN's past few years have been lacklustre. With a new CEO in Tracy Robinson on board, we could see

CN Rail really take steps to becoming a top-performing rail player. The stock performance has lagged its rival CP Rail, mostly due to questionable management decisions.

As Robinson looks to make the right investments, I'd look for CN to be ready for the next economic boom. The stock goes for 21.1 times trailing earnings. It's not cheap, but the 2.03% yield is attractive.

## CP Rail

CP Rail stock has really outpaced its rival CN in recent years. Still, the stock is stuck in a bit of a slump, as investors sour on stocks in general. With Kansas City Southern likely to give the firm a long-term jolt, investors have a lot of reasons to give the firm the benefit of the doubt. In the meantime, the deal will limit CP's financial flexibility and, at the worst possible time.

With strong managers and a robust operating ratio, I'd be a buyer of any dips that happen between now and the year's end. CP Rail stock is not cheap at 23.4 times earnings, with a tiny 0.83% yield. Due to the higher multiple and complexities involving its latest acquisition, I'd argue CN Rail is a better buy, even if CP has more to gain from strength in grain shipments. The premium is just a tad too rich in CP versus CN stock.



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