Better Rail Buy: CN Stock or CP Shares?

Description

The railway stocks have been surprisingly resilient amid the recent bear market plunge. Though **CN Rail** (TSX:CNR)(NYSE:CNI) and **CP Rail** (TSX:CP)(NYSE:CP) are both economically sensitive firms that will feel pressure once an economic contraction hits, shares tend to be among the first to recover once the economy is ready to expand again.

Indeed, the rails have some of the widest moats out there. And that's a major reason why their shares don't tend to lead to the downside at the first signs of recession. In prior pieces, I praised the rails as essential firms that are much-needed to lead the economy to better health.

Over the past two years, both rail stocks have faced immense changes. CP Rail walked away with Kansas City Southern (KSU) in what was a rather confusing bidding war, which I predicted would go in CP's favour.

CP won the bidding war with CN, but the battle with its rail peer is far from over. Looking ahead, CP will be looking to drive synergies from its Kansas City Southern deal. Undoubtedly, the deal is one-of-a-kind, but it did not come cheap. Acquisition and integration costs could weigh heavily on the firm's financial flexibility over the medium term.

Meanwhile, CN Rail's new CEO Tracy Robinson seems ready to help the firm regain its throne as North America's most efficient railway. Over the years, CN has lost a step, inspiring outsiders to push for a new leader. CN has that new leader, and the firm has quite a bit of momentum behind it such that a recession may not be able to derail the share price (pardon the pun!).

CP Rail: The most exciting railway in North America?

Indeed, CP's more than willing to pay the price if it means being the first major railway to span Mexico, Canada, and the U.S. It's doubtful that any firm will ever be able to cross both major North American borders. Certain pundits may think CP overpaid for KSU. With markets in freefall, it's apparent that CP could have gotten a better bang for its buck. Regardless, CP is such a dominant long-term rail behemoth following the deal that any nearer-term shortcomings should be forgiven.

Former CP activist investor Bill Ackman is back in the stock with a passive position. And I don't think he'll be quick to exit, as the railway looks to make the most of its enviable network.

At writing, CP stock trades at a 32.9 times trailing price-to-earnings (P/E), well above the industry average P/E just shy of 25 times. At around $95 and change, CP is not a cheap stock. Still, its longer-term growth story is among the most exciting in the space. In any case, I do think the valuation is a tad on the rich side for new entrants.

CN Rail: Back to the basics; Back to the top?

The year 2021 was full of drama for CN Rail. From the bidding war with CP to seemingly endless strikes, the track behind the firm is quite bumpy. Looking ahead, things look brighter, even with a recession on the horizon.

With a new CEO and a magnificent quarterly beat on the books ($1.93 EPS vs. the $1.75 consensus) on $4.2 billion in revenue, CN looks ready to better itself as macro conditions take a turn for the worst.

Scheduled railroading is never easy, but I think the company has the right people to make CN the former railway that industry peers envied and strived to become. CP may be the more exciting rail play, but CN, I believe, is a far better value proposition for investors right now.

The stock trades at a modest 20.7 times trailing price-to-earnings (P/E), well below the industry average. Finally, there's a fast-growing 2% dividend yield that's pretty much the icing on top of the cake.

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1. Investing

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Author
joefrenette