CP Stock or CNR Stock: Which Should Investors Own in a Downturn?

Description

Railway stocks are some of the best places for investors to put their cash. In the case of Canada, that couldn't be more true. **Canadian Pacific Railway** (TSX:CP) and **Canadian National Railway** (TSX:CNR) are both blue-chip companies. They offer long-term contracts and steady cash flow from transporting necessary goods across the continent.

But when it comes down to CP stock or CNR stock, which is the better buy during a downturn?

CP stock

CP stock went through a major overhaul when Hunter Harrison became chief executive officer in 2012. It's now under Keith Creel. Creel is moving the company in a similar direction, focusing on profitability and cutting costs.

CP stock went from a second-rate railway to surpassing CNR stock in 2019 with a 60% operating ratio. Further, it's focused on necessity items such as fertilizer, grain, oil, gas, and coal. Yet after a decade of cost cutting and revenue focus, it's now looking towards future revenue.

This is why CP stock introduced hydrogen-fuel railcars, set to further bring costs down over the years. Then, there's the **Kansas City Southern** merger, which looks all but assured after the Surface Transportation Board favoured the choice between CP stock and CNR stock. CP stock now basically owns the company, though it doesn't have voting rights while it's under review.

While expensive, this gives the company an opportunity to get in on even more revenue action in the years and decades to come. So, during this downturn, long-term investors would do very well to consider CP stock.

CNR stock

The big benefit for investing in CNR stock is that the company *doesn't* have an enormous US$31 billion price-tag looming over it. This leaves the company open to new opportunities and to hoard cash during a downturn. CNR stock is now in a strong financial position, after also seeing growth under Hunter Harrison, who left for CP stock in 2009.

The company continues to see solid cash flow, with free cash flow in the high teens over the last decade. Plus, while it has exposure to grain, oil, coal, and other similar products to CP stock, it has more exposure to intermodal products. And just because CP stock spans North America, don't forget that CNR stock boasts the ability to reach all Canadian coastlines and all the way down to New Orleans.

All of this points to long-term growth for CNR stock; it's growth that has stabilized somewhat over the last few years. The real question for CNR stock then is: what now?

Foolish takeaway

As both of these companies have a strong cash flow advantage, I'd say railway stocks in general are a solid choice during a downturn. So, here is what I think investors should consider right now. If you're going to need that cash soon after a downturn, I'd perhaps go with CNR stock. It offers a 1.89% dividend yield and trades at about 21 times earnings, providing a strong jump-in point, with cash to support it through any economic uncertainty.

As for CP stock, long-term investors may want to pounce on this while they can. I feel that there will be a shift if we don't see more come from CNR stock. CP stock is set up for decades of growth and cash savings. So, it's where I would focus any long-term attention.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. alegatewolfe
2. kduncombe

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/12
Date Created
2022/10/09
Author
alegatewolfe