Better Buy: CNR Stock or CP Rail Stock?

Description

The impressive top-line growths in Q3 2022 of **Canadian National Railway** (TSX:CNR) and **Canadian Pacific Railway** (TSX:CP) make both industry titans screaming buys this month.

Either railroad stock could add stability to your investment portfolio heading into 2023. If you're in the stock market for the long haul, CNR or CP are also excellent investments for long-term passive income.

Leveraging the network's strength

CNR's $4.51 billion revenue in Q3 2022 (25.7% higher than Q3 2021) is a new record. The operating income of $1.93 billion (+44% from a year ago) during the quarter was likewise a record. Higher fuel surcharge revenue driven by higher fuel prices, freight rate increases, and a weaker 'Loonie' were major contributors to the record revenue.

Other positives during the quarter include the rapid late-quarter ramp-up in Canadian Grain and the favourable pricing environment that supports rail inflation-plus on contract renewals. While net income declined 13.7% year-over-year to $1.45 billion, free cash flow (FCF) increased 79.8% to $1.35 billion. The $107.88 billion railroad company projects FCF in 2022 to reach approximately $4.2 billion.

Tracy Robinson, CNR's President and CEO, credits the back-to-basics approach for the strong quarterly results. She said, "We remain focused on disciplined execution of our integrated operating plan to maximize the effectiveness and efficiency of our incredible three-coast network."

Robinson expects a busy Q4 2022, saying, "With a strong start in the Canadian grain crop, we are resourced for the months ahead." On October 8, 2022, CNR announced its exclusive partnership with the Union Pacific (UP) and Norfolk Southern (NS) railroads in the Equipment Management Pool (EMP) program.

The EMP program will enhance CNR's participation in the North American supply chain, while the solid partnership with UP and NS will expand and broaden its reach across North America. This large-cap stock trades at $159.15 per share (+3.92% year-to-date) and pays a decent 1.82% dividend.

Awaiting a transformative combination

Canadian Pacific outperforms the broader market year-to-date, +12.24% versus -9.34%. At $101.51 per share, you can partake of the modest 0.75% dividend. In Q3 2022, total revenue (freight and non-freight) increased 19.41% to $2.31 billion compared to Q3 2021. Notably, net income climbed 88.77% year-over-year to $891 million.

Keith Creel, CP's President and CEO, said "The third quarter saw strong demand in potash and intermodal that we anticipated, and CP was well-resourced to handle the volume increases we have seen." He adds, "We are well-positioned to carry the momentum we gained in the third quarter through the rest of the year and beyond."

In October 2022, the $94.41 billion railroad firm broke an all-time monthly tonnage record. CP moved 3.14 million metric tonnes (MMT) of Canadian grain and grain products, the biggest volume ever in a month.

Meanwhile, the proposed merger of CP and **Kansas City Southern** is under review by the U.S. Surface Transportation Board. If approved, it will create Canadian Pacific Kansas City (CPKC), a single rail system with a network that extends from Canada into the U.S. and Mexico.

Well rewarded investors

Canada's two dominant freight rail operators serve as vital supply chain links for the country's key trade corridors and gateways. Whether it's CNR or CP, expect substantial rewards in the long run.

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