



Railroad to Riches: Why CN and CP Rail Stocks Are Set to Rally

Description

The railway stocks have been surprisingly resilient this year, with top dog **CN Rail** ([TSX:CNR](#)) and Bill Ackman-favoured **CP Rail** ([TSX:CP](#)) both leaving the rest of the TSX Index behind in 2022. Despite the relative outperformance, it's worth noting that the rail plays aren't immune to the forces that come with recession.

Indeed, the Federal Reserve and Bank of Canada have made it clear that we can expect interest rates to continue to rise. It's a tough pill for investors to swallow, but it's a necessary one to put inflation back in its place. The good news is that inflation has likely peaked and could continue to tumble at a quicker rate than expected. In any case, it's unclear as to how much evidence of falling inflation the Fed wants to see before it considers shifting gears from hike mode to cut mode. I think markets would be content with a Fed pause. However, we may not get one if the variables on their radar don't hit a level that'd allow them to pivot without running the risk of any sort of inflation comeback.

Undoubtedly, inflation is a terrible beast and a destroyer of wealth. While the bulls may think the Fed's closer to a pivot than we think, I'd argue it's a tad too early to bet on peak rates by betting on the growth plays that have the most room to run in a return to a low-rate world.

In this piece, we'll have a closer look at the two popular Canadian railways to see which may be a better bet for value hunters. Understandably, both names are a tad on the pricy side after beating the TSX of late.

CN Rail

CN Rail found itself in a bitter battle with CP Rail for Kansas City Southern. Ultimately, CN Rail lost, as I predicted when news of the bidding war broke more than a year ago. Indeed, CN Rail was just too big to gobble up another railway. Regulators had their concerns and CP Rail ended up walking away as winner in an unsurprising fashion.

The long-time rail giant doesn't need a big [deal](#) to thrive. It already has a huge network that spans three North American coasts. The real value lies in driving operational efficiencies through the roof. By investing steadily in the business, CN can get so much more. With CEO Tracy Robinson doing a solid

job thus far, I remain a bull on CNR stock, even at more than 23 times trailing price-to-earnings.

CN Rail isn't cheap, but it deserves a premium for its rich history of dividend growth and capital gains.

CP Rail

CP Rail is a [spicier](#) but pricier railway play in my opinion. The Kansas City Southern assets could make CP a force to be reckoned with in the North American rail scene. Indeed, CP Rail was fine as a mostly Canadian rail play. Now, it has a chance to truly deliver growth for investors over the next 5–10 years.

With activist investors Bill Ackman back in the name, I expect a lot from CP. So do investors, though. The stock trades at nearly 33 times trailing price-to-earnings, making it a frothy play that may be better to consider buying on a pullback.

Though I believe in CP's managers, I prefer CNR stock at these valuations.

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