



Better Buy: Royal Bank Stock vs. CNR Stock

Description

Royal Bank ([TSX:RY](#)) and **Canadian National Railway** ([TSX:CNR](#)) are industry leaders with long track records of delivering solid total returns for patient investors.

The next 12-18 months could bring some challenging economic times, so it makes sense to consider buying top [TSX](#) stocks that have survived previous downturns and tend to come out of them in good shape.

Royal Bank

Royal Bank's share price held up better than most of its peers in 2022, and Canada's largest bank should be a safe place to park cash for buy-and-hold investors. That being said, volatility in [bank stocks](#) could continue through 2023, as markets react to inflation reports and interest rate decisions.

The Bank of Canada and the U.S. Federal Reserve have increased interest rates dramatically in an effort to cool down the economy and get inflation under control. Rising interest rates can be positive for banks, as the lenders tend to see net interest margins rise in these situations. The downside risk, however, is that businesses and households with variable-rate debt can get caught with soaring loan payments that outstrip cash flow. If too many borrowers get into trouble, the banks can see loan losses pile up to the point that they would potentially offset the benefits on lending spreads.

Royal Bank has a large Canadian residential mortgage portfolio, so a meltdown in the Canadian housing market could cause some grief. That being said, Royal Bank recently announced that only a small percentage of its mortgage clients are at risk of default. Most have adequate cash flow to cover rising loan payments, or they have flexibility to extend the amortization and limit the increase in their monthly payments.

As long as there isn't a surge in unemployment, the housing market should continue to deflate at a controlled pace.

Royal Bank built up a war chest of excess cash during the pandemic. Management put a good chunk

of the funds to work through two acquisitions announced last year. Royal Bank spent \$2.4 billion to buy a wealth management business in the U.K. and then secured a deal to acquire HSBC Canada for \$13.5 billion. The latter will add about 130 branches in Canada and brings a portfolio of wealthy retail banking clients.

Royal Bank stock trades near \$134 per share at the time of writing. This is up from the 2022 low around \$117 but still down about 10% from where it was a year ago. The stock isn't cheap at 12 times trailing 12-months earnings, but you get a world-class bank and a solid 4% dividend with decent distribution growth likely on the way in fiscal 2023 and beyond.

CN

CN is one of those stocks investors can buy for a retirement fund and simply forget for 20 years. The railway plays a key role in the efficient operations of the Canadian and U.S. economies, transporting everything from cars, coal, and crude oil to forestry goods, grain, and fertilizer.

CN proved in 2022 that it can pass rising costs through to its customers. This is important in an era of high inflation. The company generated record second- and third-quarter revenue, and management increased earnings guidance through the year. The fourth-quarter results should be solid as well, and investors will likely see a generous dividend increase announced for 2023.

CN stock finished 2022 in positive territory. The recent dip from the 12-month high gives investors a chance to buy the railway on a bit of a dip before the next surge.

Is one a better bet?

Royal Bank and CN are both top TSX stocks that deserve to be buy-and-hold picks for a self-directed retirement fund. If you only buy one, I would probably make CN the first choice right now. It should hold up better if the broader market tanks again, and the dividend growth will likely be higher than that at Royal Bank this year.

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