Comparing Canada’s 2 Top Railway Stocks

Description

Creating a portfolio centred around blue-chip companies can be a really good idea. However, if you only had enough money to fund one new position, it may be tough to choose between different companies. In this article, we will compare Canada’s two large railway companies: **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

Overview

Both companies are constituents of the **S&P/TSX 60**, an index of 60 large companies listed on the **Toronto Stock Exchange**. This indicates that both companies are leaders in the railway industry, as the index is meant to represent the leading companies in important industries.

Canadian National Railway was first established in 1919. The company has about 33,000 kilometres of track spanning from British Columbia to Nova Scotia and well into the southern United States. Canadian Pacific Railway was founded in 1881.

It has just over 20,000 kilometres of track spanning from Vancouver to Montreal and into the northern United States (e.g., Illinois, Michigan, New York).

Edge: Canadian National Railway has a much larger network, spanning a larger area.

Valuation and performance

The two companies are nearly identical in terms of valuation. Canadian National Railway currently has a trailing price to earnings ratio of 19.21, slightly lower than the trailing price to earnings ratio of Canadian Pacific Railway, which stands at 19.79.

Canadian Pacific does have a slight edge when it comes to revenue growth over the past year, as it saw its revenue increase 6.5% from 2018 to 2019 compared to a 4.16% increase by CanadianNational Railway.

The discrepancy in revenue growth may explain why Canadian Pacific Railway's stock has outperformed Canadian National Railway both over the past one- and five-year periods.

Over the past five years, Canadian Pacific Railway has a 3% edge (64% increase vs. 61%) and over the past year, it has a 17.5% edge; Canadian Pacific Railway has increased 16.5% over the past year, whereas Canadian National Railway has seen a 1% decrease.

Edge: Canadian Pacific Railway has shown better performance in recent years and has slightly better revenue growth over the past year.

Dividend

While the two companies have shown to be similar thus far, the dividend is where each company shines in a different way. Canadian National Railway is a bona fide Dividend Aristocrat, successfully increasing its dividend for 24 years. That is two decades more than the streak Canadian Pacific Railway is on (dividend increases for four consecutive years).

However, as stated in my previous article, the dividend payout ratio is another important metric to consider. Canadian National Railway currently has a payout ratio of 35.45%, which is under the ideal 50% payout ratio I outlined in the earlier article.

Canadian Pacific Railway has an even more impressive payout ratio of 19.07%, giving the company much more room to grow their dividend in the future.

Edge: Split, Canadian National Railway has had better historic dividend distribution, whereas an argument could be made that Canadian Pacific Railway is in a better position moving forward.

Foolish takeaway

There may not be a single correct answer for this question. Canadian National Railway has clearly been the better stock to hold historically.

However, Canadian Pacific Railway seems like it is growing at a much more rapid pace and it may be able to produce a more impressive dividend distribution than Canadian National Railway in the future.

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TICKERS GLOBAL

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

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Date
2025/08/26
Date Created
2020/06/07
Author
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