



Canadian National Railway (TSX:CNR) Is a Great Company, But Could This Be Better?

Description

In my search of excellent dividend-paying companies, I have identified quite a few strong contenders. In fact, I have written a [previous article](#) where I created a dividend portfolio that destroys the market in returns. While I have looked at all the companies in that list, I have not done a deep dive on all of them. Nor have I compared all of them to my favourite dividend-paying companies. So in this article, I will compare a top contender for the next addition to my portfolio with one that I am already planning to add.

A railway behemoth

This is a company that has greatly intrigued me in the past. For those that have been reading my dividend articles previously, you will know that I think very highly of **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)). I have said many times that the company is my favourite dividend stock. However, its Canadian peer, **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)) is very interesting to me as well.

Canadian Pacific is the second largest railway operator in Canada and among the top 10 in North America. Its rail network stretches from Vancouver to Montreal, and the company also has a presence in the north-central United States. All together, Canadian Pacific operates just over 20,000 km of rail. This compares to the 33,000 kilometres of rail operated by Canadian National.

Although Canadian National is larger and has shown better performance historically, Canadian Pacific has been picking up steam and looks like an excellent choice moving forward. Canadian Pacific has rewarded shareholders with a 23.4% return over the past year and 112.84% returns over the past five. This compares to Canadian National, which has gained 13.5% and 96.8% over the past one and five years, respectively.

Although Canadian Pacific's forward dividend yield of 0.96% is much lower than that of Canadian National (1.64%), so is its dividend payout ratio. Currently, Canadian Pacific has a payout ratio of

19.63%. This shows an extraordinary amount of room for the company to grow its dividend in the future and suggests that it's still investing capital into expanding its network. On the other hand, Canadian National has a higher — yet still very respectable — payout ratio of 44.06%.

What can we expect to see from Canadian Pacific moving forward?

The big question here is whether Canadian Pacific has the capability to overtake Canadian National in the future. In terms of dividend distribution, it appears to be in a much better position than its Canadian counterpart. It should be noted that although Canadian National has been a Dividend Aristocrat for years, Canadian Pacific is knocking on that door.

Canadian Pacific is showing signs of forward-thinking innovation. In August, the company announced that it is commencing installation of a [solar energy farm](#) at its headquarters. This project, when complete, will be able to generate up to five megawatts of energy and avoid approximately 2,600 tonnes of carbon emission per year. The power generated by this farm is also estimated to be more than what is annually consumed by the company's main headquarter building by early 2021.

The company is also dedicated to continuing the expansion of its rail network. Earlier this year, Canadian Pacific finished acquiring the Central Maine & Quebec Railway. This purchase efficiently connects its rail in the Montreal and Toronto area and the American Midwest with rail networks in Atlantic Canada. Company President and CEO Keith Creel believes that the opportunities created by this acquisition may be generational.

How Canadian Pacific handles execution has yet to be determined, but it is certainly placing itself in an excellent position for the future.

Foolish takeaway

Canadian National Railway is one of my favourite companies in Canada. I have long been planning on adding it to my portfolio. However, its peer and largest competitor in the country seems like an even more intriguing company right now.

Canadian Pacific Railway is firmly placing itself as a solid investment by continuing to expand its network and choosing to generate its own energy by installing solar farms.

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