Why CP Has Better Value Than CNR Right Now

Description

Canadian rail stocks **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) may seem identical. However, each company has distinct advantages and disadvantages that investors ought to be apprised of. I'll discuss why I would focus on CP right now.

The value of both companies lends well to the idea that owning both railroads would even out any performance discrepancies across these two companies and add to the already extremely stable nature of rail in general. But I think there is value in comparing these companies to see which is the better long-term play based on an investor's risk-tolerance level. Owning either railroad provides access to the extensive rail infrastructure, which would be impossible to replace today. Given the issues we've seen with the Coastal Gas Link project alone, existing track is extremely valuable. I would contest existing rail is even more valuable than the market is giving either company credit for.

Most Canadian investors will have recognized the impact these two companies have on the overall Canadian economy due to the rail blockades, which have now ended. Estimates of just how much of an impact these Coastal Gas Link protests have had on Canadian GDP vary. However, as we have seen with previous strikes in the sector, a week-long strike took approximately 0.1% off of Canada's quarterly GDP numbers.

The key differentiating factor

When comparing these two railroads, the key differentiating factor investors should consider is risk tolerance. These protests and rail blockades have shown that a major disruption in economic activity related to terrorist events or supply-and-demand shocks could affect investors in railroads substantially. This is due to the fact that these companies are tethered closely to the performance of the Canadian economy.

For more defensive investors seeking to protect their holdings against a potential upcoming recession, I would suggest CP is the better option. This railroad has, in some ways, a more diversified stream of revenues from sectors outside mining and forestry. CNR is more heavily involved in the transport of goods from those sectors.

That being said, for investors who believe the party will continue and that we will continue to see economic outperformance for another 10 years, exposure to a name like CNR isn't a bad thing. Some may argue that while the Canadian forestry sector is likely to see a massive decline in the event of such a negative economic event (due to a slowdown in U.S. housing demand), the Canadian mining sector, and, in particular, the Canadian precious metals mining sector, could see volumes take off. This makes CNR perhaps slightly more volatile than CP. However, both railroads are likely similar in nature from a long-term perspective in terms of growth.

Bottom line

Personally, I'd own both names in an equal weighting in my portfolio. But if I had to choose, I'd recommend CP in the current economic environment.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. canada
2. risk
3. transportation

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. canada

2. risk
3. transportation

Date
2025/08/16
Date Created
2020/03/14
Author
chrismacdonald