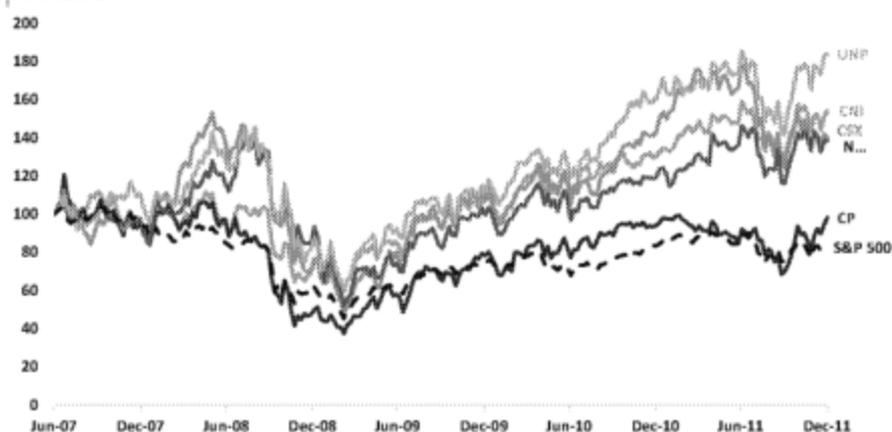Figure 74: Railroad stocks underperformed the market during the 08/09 recession

Source: Deutsche Bank, Company Filings

Following the 08/09 recession, rails had another good run with CP and UNP outperforming the rest of the industry. This was driven by two factors: stronger earnings growth and multiple expansion on the back of significant margin improvements. We note that NTM P/E multiples for CP and UNP expanded by 40% and 30% during this time, respectively, compared to 20% for the rest of the industry and the S&P 500.

Figure 75: Solid margin expansion at CP and UNP supported stronger EPS growth and higher P/E multiples from 2011-2014
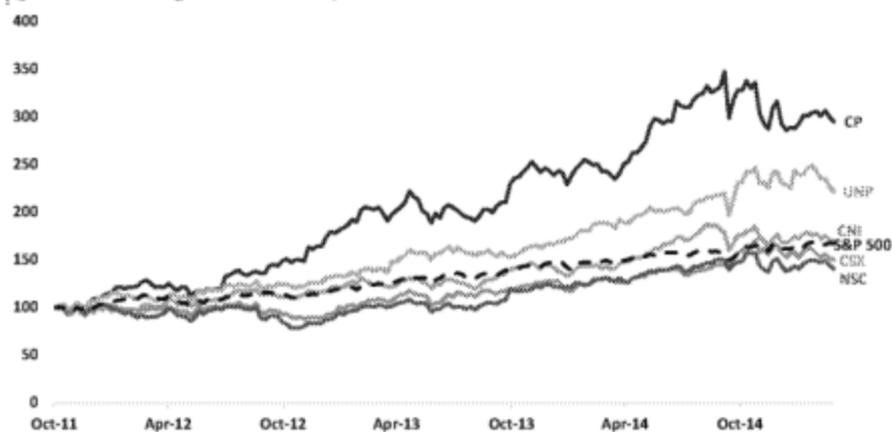
Source: Deutsche Bank, FactSet

After peaking in late 2014 / early 2015, railroad shares declined 40% on average from peak to trough (vs. an essentially flat S&P 500 during that time) amidst industry-wide carload declines due to weak industrial activity and a significant decrease in coal demand. We note that CP was the worst performing railroad peak to trough (-50%) given its higher exposure to energy related carloads while CNI outperformed (-31%) given its undersized exposure to coal and Canadian crude. Railroad shares began to recover in late 2015 / early 2016 as fears over further volume declines subsided. Performance was relatively similar across the board until Hunter Harrison left CP to join CSX. Since then, CSX has been the