



Canadian Pacific Railway Gets Lean and Mean

Description

Canadian Pacific Railway ([TSX:CP](#)) ([NYSE:CP](#)) recently announced its intention to sell the western portion of its Dakota, Minnesota & Eastern (DME) rail line, which was acquired in 2008 for \$1.48 billion. The portion that is being sold will bring in \$210 million.

The buyer, **Genesee & Wyoming** (NYSE:GWR), is a short line and regional freight rail operation in the U.S., Canada, and abroad. It owns and leases 15,000 miles of track across 11 regions. With this length of rail, it can interchange with other railways, including CP, Union Pacific, BNSF, and NNW. An interchange occurs when two railways meet and can pass goods from one rail to another by transferring rail cars.

The portion of rail being sold accounts for 660 miles and ships 52,000 carloads annually of grain, ethanol, fertilizer and other products. The use of the line is projected to generate approximately \$65 million in annual revenue for Genesee & Wyoming.

This transaction still needs to undergo review by the U.S. Surface Transportation Board. CP is expecting the final word to be given about halfway through the year.

Even the best laid plans can run off the tracks

Back in December 2012, CP put the breaks on the Wyoming Powder River expansion — at a cost of \$180 million. The original draw of the project had been that part of rail that leads to Wyoming to access the distribution for thermal coal. But with softened coal demand and now, the sale of some of the assets, CP has made a clear change of direction.

At the same time, in 2012, as part of a strategic review process, CP committed \$1.1 billion to capital spending in 2013. By May 2013, cash flow was better than expected, and the company announced that it would add another \$75-\$100 million to fund upgrades between Winnipeg and Edmonton and signaling systems between Moosejaw and Chicago, with the overall goal of expense savings and strengthening the balanced sheet through acquisition of rail that had previously been leased.

2014

With CP's fourth-quarter results set to be released on January 29, it will be interesting to see how far it has come in achieving its targets. The management discussion and strategic vision for the year should also lend insight to how CP will be furthering its plans to become a more profitable railway in 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

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