Canadian Pacific Railway: Buy, Sell or Hold?

Description

Canadian PacificRailway (TSX:CP)(NYSE:CP), the nation's second largest railway, just released its Q4 and year-end results, and there were some pleasant surprises.

Q4 2013 has been very good for Canadian Pacific, which has set a new quarterly record of $1.6 billion in revenues, up 7% from last year. From these revenues, Canadian Pacific made $338 million in adjusted net income ($1.91 per share), a dramatic increase of 49% from Q4 2012.

On the year-end side, the company set another new record with $6.1 billion in revenues, and an adjusted net income of $1.1 billion ($6.42 per diluted share), up 48% from 2012. These are all impressive numbers but how did Canadian Pacific bring all of this to pass?

The oil boom

One of the major contributors to Canadian Pacific's growth (and that of the entire industry) has been the boom in crude by rail. What was once a small piece of the railroads' cargo has grown to 25,000 carloads just in the last quarter alone. For all of 2013, Canadian Pacific moved 90,000 carloads of crude, a 68% increase from 2012.

With the continuing growth of crude by rail, Canadian Pacific is expecting the number to grow to at least 210,000 carloads by 2015. This number could skyrocket even higher as energy producers begin expanding crude by rail terminals. Also the fate of the Keystone XL pipeline could also greatly affect the number of cars moved.

The new guy

The driving force behind this turnaround has come from CEO Hunter Harrison, who took the reigns of Canadian Pacific one year ago, after six years running **Canadian National** (TSX:CNR)(NYSE:CNI). Since taking over Canadian Pacific, 4,750 jobs (85-90% through attrition) have been cut, revenues have hit all-time highs, and brought the adjusted operating ratio to an all-time low of 69.9%.

Even the pension has been turned around from a $721 million deficit in 2012 to a 2013 surplus of $800 million. Despite all these advances, Harrison is still committed to boost earnings another 30% in 2014.

Foolish bottom line

Canadian Pacific's results announcement pushed the stock to a 52-week high of $171.90 and is up from $116.01 one year ago. Thanks to all the management initiatives taken by the company, issues such increased winter-related costs or an inability to move grain can be mitigated to keep the books growing.

The question is whether these numbers are a one-time stop, or a new regular route. With all the growth the company has experienced, can it maintain this type of growth or will this become a new plateau?

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:CP (Canadian Pacific Railway)

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