



2 Stocks to Watch This Week

Description

The **Toronto Stock Exchange 300 Composite Index** (^GSPTSE) could not hold on to the record level reached the week before and ended the week slightly down. With the oil price moving lower the oil producers lost substantial ground with stocks like **Tourmaline Oil** and **Athabasca Oil** losing more than 5% during the week. On the positive side the names of the mining companies and especially the gold producers were prominent. **Franco-Nevada Corporation**, **Oceana Gold** and **Argonaut Gold** all gained more than 4% during the week.

The main corporate results season is starting to get traction with some of the larger companies expected to report results in the coming week – the expected highlights are discussed below.

Canadian Pacific Railway ([TSX: CP](#))([NYSE: CP](#)) has been on an absolute roll since Hunter Harrison took over as CEO in 2012. The actions taken since mid-2012 included a substantial reduction in the workforce, the relocation of the corporate headquarters to a railway yard, the reduction of the active locomotive fleet and railway cars, and the identification and intended sale of surplus real estate. The improvements were dramatic – a considerable increase in the operating profit margin, a doubling of the net profit margin and an increase in the adjusted 2013 earnings per share of 49% compared to 2012.

Despite only a slight improvement in first-quarter revenues, the company still managed to increase earnings per share compared to the corresponding period a year earlier, mainly as a result of good cost management. The harsh winter conditions experienced during the quarter had a negative influence on the results, mitigated to some extent by the positive impact of the weaker Canadian dollar.

The company will report second-quarter 2014 financial year results on July 17 and analysts are expecting a profit per share of \$2.14 compared to U.S.\$1.43 for the same period a year earlier. Investors will be looking for a solid improvement in revenues and a continuation of the improvement in operating ratios. The company has guided for a 30% growth in earnings per share for the full year but consensus expectations are already higher.

The company has kept the quarterly dividend payments unchanged for the past nine quarters but has recently introduced a share buyback program. Investors will be looking for an increase in the dividend

and the number of shares repurchased from the market.

The Canadian Pacific share price has performed well having almost doubled over the past 18 months. A valuation of around 23 times 2014 profits — a considerable premium to peers — leaves scant room for disappointment.

Sirius XM Canada (TSX: XSR) is a Canadian-wide provider of satellite-based subscription audio services. It is the Canadian partner of U.S.-based **SiriusXM Radio** ([Nasdaq: SIRI](#)) and carries most of the same audio streams. The company has an estimated 2.4 million subscribers and a 14% market share of Canadian radio revenues. The product offering of 120 radio channels is available to motor vehicles, portable radio devices, and on internet-connected devices including mobile phones.

The results for the first six months of the fiscal year did not deliver any fireworks with unchanged earnings per share compared to the same period a year earlier. However, the total number of subscribers increased by more than 8% compared to a year ago.

Sirius is expected to announce third-quarter 2014 results on Wednesday. Analysts are expecting a profit per share of \$0.01 compared to \$0.01 for the same quarter a year ago. Investors will be focussed on the subscriber growth and the average revenue generated per user.

The share price of Sirius has increased 14-fold over the past five years despite a sharp drop since the start of 2014. The stock is not cheap with a 2014 EV/EBITDA of 13.5 times but still at a considerable discount to the sister company Sirius XM in the U.S. The market will be looking for indications of strong growth in the years ahead to justify the current valuation.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SIRI (Sirius XM)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CP (Canadian Pacific Railway)

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