Can Canadian Pacific Railway Overtake Canadian National?

Description

Since Hunter Harrison took the controls of **Canadian Pacific Railway** (TSX: CP)(NYSE: CP) investors have been keeping a close eye on the company. They are waiting to see if Harrison's bold plans will derail the company or help overtake **Canadian National Railway** (TSX: CNR)(NYSE: CNI) as the country's top rail company.

Canadian Pacific Rail's latest quarterly report has come out boasting some record numbers, but is this enough to bump its main competitor off the tracks?

The numbers have arrived at the station

Thanks to a surge in oil by rail orders and a record 2013 harvest that is still being cleared out, revenues have climbed to $1.64 billion, up from $1.49 billion in Q2 2013. These numbers could have been even higher if not for the brutal winter this year, which bogged down the company's ability to move freight. Issues in the U.S. also limited some revenue growth with an array of congestion delays at both the Chicago hub and the Minneapolis-St. Paul corridor.

While revenues saw a modest gain, net income saw a massive 48% increase in earnings per share. In plain numbers that is $371 million ($2.13 per share) up from $252 million ($1.44 per share). Another source of gains came in the form of a 40% increase in operating income totalling $587 million.

The top performing segments

Much of the aforementioned gains are due to increases in the company's top segments, Canadian grain shipments rose by 32% due in part to the legislated delivery guidelines concerning backlogged grain. Shipments of crude by rail also saw double-digit growth of 18% during the quarter, keeping Canadian Pacific in line with its estimates to hit 210,000 carloads a year of crude by 2015.

A proverbial feather in Harrison's cap is his goal to reduce Canadian Pacific's operating ration from 71.9% to 65% by 2015. That's a feat many analysts didn't expect could be realized in such a short timeline. Now in Q2, the operating ratio fell to a new record low of 65.1%.

Stop for the flashing red lights and take a look at the stock gains

Investors could be in line for an upgraded dividend following the Q2 results, as during a conference call there were hints dropped that a change in the dividend policy could be in the works. This would be welcome news for current investors and potential ones as CP's dividend yield is only half of what is offered by Canadian National. With projections of continued double-digit revenue growth for the rest of this year and the early part of 2015 a bump in the dividend could be affordable.

The stock closed Thursday at $202.33, after hitting a 52-week high earlier in the day of $207.88. Following the quarterly release new price targets began to trickle in varying between $216.00 and $225.00.

Now we wait for Canadian National Rail to release its Q2 report next week to see which will be the top railroad in Canada going forward.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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