



## 5 Things to Consider Before Buying Canadian Pacific Railway Limited

### Description

**Canadian Pacific Railway Limited** ([TSX: CP](#))([NYSE: CP](#)) enjoyed a prosperous Q2 2014. However, the company is still addressing challenges unique to its industry to continue to successfully drive growth. Here are five things to consider as you perform due diligence on Canada's second largest railway company.

#### 1. Recently instituted government regulations

The Government of Canada has instituted new rail transportation rules as part of the Fair Rail for Grain Farmers Act. The government's intention is to expedite grain deliveries as the Act sets minimum grain volumes the railway companies must meet.

CP Rail and **Canadian National Railway Company** ([TSX: CNR](#))([NYSE: CNI](#)) must meet these requirements from August 3 to November 29, 2014. The government wants to maximize the amount of grain transported by the railways prior to the winter. This is just a part of other stipulations in the Act.

The Canadian government set these rules in place because of rail holdups that left grain sitting in storage bins on the Canadian Prairies, which hurt producers. Nonetheless, CP Rail President Hunter Harrison does not agree with the government, saying, "Issues relating to the transportation of grain will not be solved in Ottawa but by the joint collaboration of all partners in the supply chain."

Therefore, burdensome government regulations are an issue for railway companies as each strives to operate efficiently and it's something investors must consider as well.

#### 2. Operating costs

To remain viable and profitable, railway companies must refine operations for efficiency. For Canadian Pacific, it's focusing on a pared-down fleet, infrastructure, and workforce to control operating costs. Last year, the company operated with considerably fewer locomotives and in excess of 10,000 fewer railcars than the previous two years. The challenge is operating this way while still delivering the services required to meet the needs of its customers. For Q2 2014, Canadian Pacific's operating expenses were \$1.09 billion. This represents a 2% increase over Q2 2013.

### **3. Cross-border issues**

Canadian Pacific invests capital to promote cross-border trade. Regulations at borders can hamper shipment fluidity. CP Rail noted in its report called Transborder Operations & Border Issues facing the Rail Industry (2009) to, "Expect on-going complications at the border resulting from a continued security/enforcement focus and further laying of compliance related requirements."

Therefore, the company believes that enforcement of regulations at borders needs to be balanced with the trade aspect so the movement of goods is smooth and efficient, for Canadian Pacific and its customers.

### **4. Network service problems**

Recently, The Surface Transportation Board (STB) said it "has been closely monitoring the rail industry's performance metrics and is concerned about service problems across the nation's railroad network, particularly on the Canadian Pacific Railway Company (CP) and BNSF Railway Company (BNSF) systems." The STB is an economic regulatory agency. The U.S. Congress has directed STB to resolve railroad rate and service disputes and review proposed railroad mergers.

Canadian Pacific is addressing network issues by evaluating its entire network for opportunities to optimize track infrastructure for velocity, cost efficiency and alignment with growth plans.

### **5. Still delivering results**

Despite the challenges of the railway industry, Canadian Pacific had record Q2 2014 financial results. It had a 48% year-over-year improvement in EPS, revenue was up 12% over Q2 2013, and its operating income was up 40% over Q2 2013. The company pays a dividend of \$1.40 annually per share and its current stock price is approaching its 52-week high.

Canadian Pacific Railway Limited is a solid investment that is worthy of any portfolio. Recent analyst ratings by a number of investment firms for the company have been good and I believe it's a decent long play despite the industry challenges it's facing.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
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