Will Canadian Pacific Railway Limited Hit $300?

Description

Shares of **Canadian Pacific Railway Limited** (TSX: CP)(NYSE: CP) have risen more than 360% in the last three years and are up more than 80% in just the past 12 months.

Investors who watched from the sidelines as the stock consistently chugged higher are kicking themselves for not getting in early. At the current price of $230, you need to drop $23,000 just to get into the game.

That's a lot of money to bet on a stock that is trading at 40 times earnings. So what should investors do?

To justify such a high multiple, the company needs to have a compelling growth story, and I think Canadian Pacific is in that sweet spot right now.

Here are three reasons why the shares of Canadian Pacific Railway could head much higher.

1. Improved efficiency

On October 1, the company said it expects to double profits by 2018. To succeed, Canadian Pacific plans to add significantly more railcars to each train and then move them much faster down the track. In fact, management wants train speeds to increase by 20% in the next four years and hopes to add as many as 50 cars to some train routes.

2. Energy customers

The improvements in efficiency are just one way the company will increase profits. The second half of the earnings equation comes from business growth. Crude-by-rail cargo has ballooned in recent years as Canadian oil companies have searched for a way to move excess production out of western Canada to locations where they can get global-based pricing for the product.

This has been a phenomenal business opportunity for Canadian Pacific. The company transported about 90,000 carloads of oil in 2013. The company expects that number to increase to almost 200,000 by the end of 2015.

3. Intermodal competitiveness

Intermodal refers to the movement of goods by boat, train, and transport truck. Traditionally, trucking companies have dominated the inland transport of cargo for all but the longest cross-county routes. Today, the industry is in transition and rail companies are winning much more of the intermodal business. Increased operating efficiency and the building of intermodal hubs have helped Canadian Pacific steal business from the truckers.

On the trucking side, companies are less competitive because fuel prices are significantly higher and new regulations restrict the number of hours a driver can be behind the wheel.

By 2018, Canadian Pacific expects to book intermodal revenue of about $2 billion. In the first two quarters of 2014, intermodal contributed nearly $670 million to the bottom line.

What are the risks?

The stock will only run higher if Canadian Pacific is able to meet its goal of adding more cars at bigger margins. Here are a couple of points investors should keep in mind that could derail the profit train.

1. Weather

Difficult weather conditions can wreak havoc with Canadian Pacific's business, especially during the winter. This is a short-term event but profit warnings tend to cause grief for investors when the stock is trading at such a high multiple.

2. Regulation

There is also the threat of further restrictions being placed on the rail carriers regarding the two things they hope to increase: speed and train length. Crude-oil transport is still a hot topic with the public and opponents to the movement of oil through their communities are not going to be happy that bigger and faster trains loaded with oil are coming down the track.

The bottom line?

Canadian Pacific has delivered on its promises in the past few years and there is little reason to believe the engine of growth will slow down anytime soon.

CATEGORY

1. Investing

TICKERS GLOBAL

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Author
aswalker