



Can Canadian Pacific Railway Limited Hit \$300 by 2016?

Description

Ever since Hunter Harrison took control of **Canadian Pacific Railway Limited** ([TSX: CP](#))([NYSE: CP](#)), things have been changing rather quickly for Canada's No. 2 railway. Costs have been reduced, revenues are on the up, and a fresh delivery of projections has investors and analysts buzzing.

In terms of the stock, how high can it go in the next couple of years? Between Thursday and Friday last week, the stock went from \$234.70 to \$241.67 thanks to Harrison's plans. Is now the best time to load up on shares of CP Rail?

The plan

The stock market is buzzing about the new four-year financial targets released by CP Rail. These targets include \$10 billion in annual revenues, up from the \$6.7 billion toward which the company is tracking this year. There is also the revelation that CP Rail is hoping to raise its cumulative cash flow to over \$6 billion by 2018 and double its current earnings per share ratio of \$8.53.

In order to meet these projections, CP Rail is initiating a capital spending plan of \$1.5 billion, which will help it make its loading facilities more efficient and to rebuild its major line from Edmonton, Alberta, to Glenwood, Minnesota.

There will also be another \$300 million to upgrade its rail traffic control systems. This is needed to raise its average train speed by one to two miles per hour, which would bring its average to 19 mph, though that still lags behind the North American average of 23 mph. These increase speeds are critical to make up for the over 500 locomotives that have been shelved during this time of cost-cutting.

Increased speeds are a key factor in CP Rail's plans to narrow the gap between itself and **Canada National Railway**. According to Harrison, "If your service and velocity improve, you can improve your quality of revenue and probably gain market share."

The optimism

Analysts are thus salivating. Before the announcement, the average price target sat at around \$225,

but now the bullish analysts have emerged. Analysts at BMO Capital Markets have adjusted their price targets to \$260. While Raymond James has raised its price targets to as high as \$280.00 over the next year, this represents a 20% increase in share price over the next year.

An even more intriguing report has come out of Desjardins, whose researchers believe that the stock can now reach over \$300 by 2016.

This turnaround by CP Rail is being hailed by some as the “most stunning turnarounds in Canadian history.” Since Harrison assumed control of the company, the stock has gone from trading in the \$85-\$95 range to \$241.67. For investors who missed out on riding the rails the first time around in 2012, this could be the last time for quite a while that an opportunity like this pulls into the station.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

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