



3 Reasons to Add Canadian Pacific Railway Limited on a Pullback

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) has its Q3 earnings release on October 21. Analysts expect that it will be another successful quarter for Canadian Pacific, and I am compelled to agree. Canadian Pacific is a strong company and, up until the beginning of October, it had been on a solid trend upward. Since then, it has dropped 12%.

Based on how the markets have been behaving, if you have cash in your possession, be prepared to purchase shares, especially before the earnings call.

Here are three reasons that I think Canadian Pacific is a solid buy.

1. Institutional investors love it

Look at the large investors who hold the stock. Fidelity Management and Research Company, Pershing Square Capital Management, L.P., and Jennison Associates LLC are the three largest holders of the stock. Both Fidelity and Jennison have added to their positions. Pershing is the reason that the stock is where it is.

Bill Ackman, the founder of Pershing Square, is the one who brought in Hunter Harrison as CEO. Since that time, the stock has risen over 200%. Ackman is known for coming into companies and helping to turn them around, making lots of people a lot of money.

Ackman has cut back his position by 3.2 million shares, but CP still accounts for over 20% of his portfolio. So long as he has so much of his firm's money tied up in CP, I think it's a solid place to be. But he's up 200%. If the stock drops, he can still be profitable, so make sure this stock falls into a price point you're comfortable with.

2. Acquisitions are coming

A few days ago, I predicted that CP would fail in its acquisition of **CSX Corporation** (NYSE: CSX). Combining these two massive railways is likely to prove very difficult.

But now that Canadian Pacific has gotten acquisitions in its mind, I expect it to start making moves. One company that comes to mind is **Kansas City Southern Railway Company** (NYSE: KSU). Where Canadian Pacific ends in Kansas City, KCSR starts. The train goes all the way down to Mexico. It also goes to New Orleans.

This acquisition would result in one railway connecting to Vancouver, Montreal, the Great Lakes, New Orleans, and then into Mexico. It could take resources from deep in Canada and get them around the United States with ease.

If the CSX acquisition doesn't happen, expect this to come soon after.

3. Its fundamentals still look good with a price pullback

The one thing that makes me nervous about CP is it's 36.36 P/E. This is still much higher than the railroad sector's 19.90, but only a few weeks ago, the P/E was 41.39.

Since Ackman forced a management change, revenue has been increasing. Total revenue in 2011 was \$4.6 billion. By 2012, it had increased revenue to just over \$5 billion. And in 2013, it had \$5.4 billion. Growth continues to happen for the company.

While it is growing its revenue, it is also pushing to decrease its operating costs. Management has promised that its operating ratio would drop below 65%. Should it continue to get its costs down, the company has a really bright future.

For the next couple of days, I think the price of Canadian Pacific will drop some more. But if you are bullish on the company, I would buy before the earnings call on the 21st. The company has continued to return great results.

CATEGORY

1. Investing

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