



## Is Canadian Pacific Railway Limited a Safe Investment for 2015?

### Description

Investors in **Canadian Pacific Railway Limited** ([TSX: CP](#))([NYSE: CP](#)) have watched the stock rise more than 250% in the past three years. New management has driven efficiency into the operation and a boom in crude oil shipments has helped drive revenue and earnings to record levels.

Let's take a look at the company to see if the growth will continue in 2015.

### Strong earnings

Canadian Pacific delivered record net income of \$400 million in Q3 2014, a 26% year-over-year increase. Revenue was up 9%, and operating income rose 19%.

The company is benefitting from a boom in oil-by-rail transport as Western Canadian oil companies search for ways to bypass pipeline bottlenecks and send crude to refineries and higher-priced markets.

The Canadian Association of Petroleum Producers announced in June that it expects crude-by-rail shipments to hit 700,000 barrels per day by 2016. By the end of 2014, shipments are expected to be about 400,000 barrels per day, roughly double the year-end rate for 2013.

Canadian Pacific transported 31,000 carloads of crude oil in Q3 2014, a year-over-year increase of 63%.

Canadian Pacific is also winning business in the intermodal transport industry. Traditionally, trucking companies dominated the long-haul segment for the transport of goods between ships and their final destinations across the country. High fuel prices and tighter regulations on driving times have made the railways more competitive. Railways have also invested in intermodal hubs. Canadian Pacific expects its intermodal revenue to hit \$2 billion by 2018.

Canadian Pacific transported 111,000 carloads of domestic intermodal freight in the third quarter, a 19% increase over Q3 2013. International intermodal carloads dropped 14% due to contract losses.

## Improved efficiency

The company's operating ratio fell to a record low of 62.8% in Q3 2014. The operating ratio is a key measure of efficiency in the railway industry as it indicates the cost incurred to add an extra dollar of revenue.

Canadian Pacific was always known as North America's most inefficient railway, but the company has made enormous improvements since Hunter Harrison took over as Canadian Pacific's CEO.

At an investor conference in early December 2012, Harrison said he wanted to get the operating ratio down to the mid-60s by 2016. He has already beaten his forecast.

On October 1, 2014 Canadian Pacific said it expects to continue improving efficiency by increasing the train speeds by as much as 20% and adding as many as 50 cars to some of its train routes.

## Shareholder returns

In the Q3 report, Canadian Pacific amended its plan to buy back 5.3 million shares by March 16, 2015. Now the company plans to repurchase up to 12.7 million shares.

Canadian Pacific pays a dividend of \$1.40 per share

## Should you buy?

Canadian Pacific should report another record quarter for Q4 2014, but 2015 could be a different story. The drop in oil prices is likely to impact intermodal more than crude-by-rail as truckers will become more competitive.

Crude-by-rail could get hit by new regulations as both the U.S. and Canadian governments are discussing a number of measures to improve safety. Reduced speeds and safer transport cars are among the requirements that could hinder crude-by-rail revenues and increase costs next year.

Another nasty winter in the Canadian prairies could also hurt earnings in Q1 2015. Canadian Pacific is primarily focused on Western Canada and bad weather can hit the company's margins as train speeds are reduced.

Canadian Pacific trades at about 35 times earnings, which isn't cheap. As a long-term investment the company is probably a good bet, but the stock could hit a rough patch in 2015.

The energy renaissance in North America is great for railways, but one other industry is also enjoying the benefits. The following free report analyzes one top company that avoids the risks facing Canadian Pacific, while providing investors with stable dividend growth and consistent capital appreciation.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)

2. TSX:CP (Canadian Pacific Railway)

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1. Investing

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