



Will This Be the Top Performing Railroad Stock in 2015?

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) is one of the largest rail network operators in North America and it has been one of the market's best performing stocks in 2014, rising more than 40%, and it is picking up steam heading into the final days of the year. Even after its strong year-to-date rally, I think the stock represents one of the best long-term opportunities in the market today, so let's take a look at three of the top reasons Canadian Pacific could be the top performing railroad stock in 2015.

1. Record earnings to support a higher stock price

On October 21, Canadian Pacific released record third-quarter earnings, but its stock has only risen about 2% in the weeks since. Here's a breakdown of what the company accomplished during the quarter compared to the year-ago period.

- Net income increased 23.5% to a record \$400 million.
- Earnings per share increased 25.5% to a record \$2.31.
- Revenue increased 8.9% to a record \$1.67 billion.
- Operating ratio fell to a record low 62.8%, an improvement of 310 basis points year-over-year.
- Operating profit increased 18.5% to a record \$621 million.
- Returned \$516 million to shareholders via dividends and share repurchases.
- Ended the quarter with \$315 million in cash and cash equivalents.

In the first nine months of fiscal 2014, Canadian Pacific has reported earnings per share growth of 29.8% to \$5.84 and revenue growth of 7.4% to \$4.86 billion compared to the same period a year ago, which puts it on pace for a record-setting yearly performance.

2. Ample free cash flow generation

Secondly, Canadian Pacific is one of the most consistent and efficient companies when it comes to generating free cash flow, which gives it the ability to invest to maximize its growth potential and enhance shareholder value through dividends and share repurchases. In the first nine months of fiscal 2014, the company generated \$530 million of free cash flow, an increase of 8.4% year-over-year,

which it utilized to repurchase \$987 million worth of its common stock and pay out \$184 million in dividends.

3. Inexpensive forward valuations

Lastly, at current levels, Canadian Pacific's stock trades at approximately 27.2 times fiscal 2014's estimated earnings per share of \$8.34 and approximately 20.5 times fiscal 2015's estimated earnings per share of \$11.01. The stock's five-year average price-to-earnings ratio is about 24.3, which means shares are slightly overvalued today, but massively undervalued on a forward basis.

I think Canadian Pacific's stock could consistently trade at a fair multiple of around 24, which would place shares upwards of \$264 by the end of fiscal 2015, representing upside of more than 16% from today's levels.

Should you invest in Canadian Pacific today?

Canadian Pacific Railway's stock has rallied more than 40% in 2014 and I think it will continue higher throughout 2015, because it has the support of record earnings results, generates ample free cash flow each quarter and year, and trades at very inexpensive forward valuations. Will this information in mind, I think Canadian Pacific represents one of the best investment opportunities in the market today, so long-term investors should strongly consider initiating positions today.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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