Will Canadian Pacific Railway Limited’s Q4 Earnings Ignite Another Rally?

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), one of the largest rail network operators in North America, was one of the market’s best performing stocks in 2014, rising more than 39%, and strong earnings growth was a primary driver of this performance. The company is scheduled to release fourth-quarter earnings on January 22 and another solid report could help gets its stock off to a strong start in 2015.

With this in mind, let’s take a look at three of the most important factors Canadian Pacific will need to satisfy if its stock is going to react positively to the release.

1. EPS and revenue results versus expectations

First and foremost, it will be important for Canadian Pacific to satisfy analysts’ earnings per share and revenue expectations for the quarter. Here’s a chart of the current consensus estimates and the company’s results in the year-ago period:

Metric	Expected	Year Ago
Earnings Per Share	$2.54	$1.91
Revenue	$1.74 billion	$1.61 billion

Source: Financial Times

The estimates above call for Canadian Pacific’s earnings per share to increase 33% and its revenue to increase 8.1% compared to the fourth-quarter of fiscal 2013, which seem very attainable following its third-quarter performance, in which its earnings per share increased 25.5% and its revenue increased 8.9% year-over-year.

2. Free cash flow

Second, watch for the total amount of free cash flow generated by Canadian Pacific in the fourth quarter, because free cash is what enables it to invest in its growth, make acquisitions, and enhance shareholder value by paying dividends and making share repurchases. In the first nine months of fiscal 2014, the company generated $530 million of free cash flow, which puts it on pace to just about match the $714 million it generated in fiscal 2013.

3. Outlook on fiscal 2015

Finally, watch for Canadian Pacific's outlook on fiscal 2015 and any comments on how the declining price of oil will affect it during the year. Currently, the consensus estimates call for earnings per share of $11.01 and revenue of $7.28 billion in fiscal 2015, which would result in significant growth from fiscal 2014, even if the company beats fourth-quarter expectations by a wide margin.

Should you invest in Canadian Pacific today?

Canadian Pacific Railway is one of North America's leading rail network operators, and I think it is well positioned to post very strong fourth-quarter earnings on January 22. Furthermore, I think its stock represents an intriguing long-term investment opportunity today, because it trades at favorable valuations, including just 19 times fiscal 2016's estimated earnings per share of $11.01, which is very inexpensive compared to its five-year average price-to-earnings multiple of 28.3.

I think investors should consider initiating long-term positions in Canadian Pacific today and adding to them on any weakness provided by the market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
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jsolitro