# Should You Be a Long-Term Buyer of Canadian Pacific Railway Limited Today?

## Description

**Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP), one of the largest rail network operators in North America, announced record fourth-quarter earnings this morning and its stock has responded by rising over 1%. Let's take a closer look at the results to determine if we should consider initiating long-term positions today or wait for a better entry point in the days ahead instead.



### The record-setting results

Here's a breakdown of Canadian Pacific's fourth-quarter earnings compared to what analysts had expected and its results in the same period a year ago.

| Metric | Reported | Expected | Year-Ago |
|---|---|---|---|
| Earnings Per Share | $2.68 | $2.54 | $1.91 |
| Revenue | $1.76 billion | $1.74 billion | $1.61 billion |

*Source: Financial Times*

Canadian Pacific's adjusted earnings per share increased 40.3% and its revenue increased 9.5% compared to the fourth quarter of fiscal 2013. These results were driven by adjusted net income increasing 36.1% to $460 million and freight revenues increasing 9.5% to $1.72 billion. The company also noted that it transported 690,000 carloads during the quarter, an increase of 0.6% from the year-ago period, and its revenue per carload increased 8.6% to $2,489.

Here's a summary of six other important statistics from the report:

- Adjusted operating profit increased 29.4% to $708 million.
- Adjusted operating ratio improved 610 basis points to 59.8%, the lowest quarterly ratio in the company's history.
- Generated $115 million of free cash flow.
- Repurchase 5,205,700 shares of its common stock for approximately $1.1 billion.
- Paid out a quarterly dividend of $0.35 per share for a total cost of approximately $60 million.

- Ended the quarter with $226 million in cash and cash equivalents.

Lastly, Canadian Pacific provided its outlook on fiscal 2015, calling for the following performance:

- Adjusted earnings per share growth of more than 25% from the $8.50 earned in fiscal 2014.
- Revenue growth in the range of 7%-8%.
- Operating ratio below 62%.

**Should you buy shares of Canadian Pacific today?**

Canadian Pacific owns one of the largest rail networks in North America, and increased demand for its services led it to a record-setting financial performance in the fourth quarter. The company reported year-over-year growth of more than 9% in earnings per share, revenue, and operating profit, while reporting a record operating ratio, generating $115 million of free cash flow, and providing solid outlook on fiscal 2015, and its stock has responded accordingly by rising more than 1%.

Even after the slight post-earnings pop in Canadian Pacific's stock, I think it represents a great long-term investment opportunity, because it trades at favorable forward valuations, including 27 times fiscal 2014's earnings per share of $8.50 and just 20.9 times analysts' estimated earnings per share of $10.98 for fiscal 2015, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 28.3.



With all of this information in mind, I think Canadian Pacific Railway represents one of the best long-term investment opportunities in the market today, so Foolish investors should take a closer look and strongly consider initiating a position.

**CATEGORY**

1. Investing

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1. NYSE:CP (Canadian Pacific Railway)
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