



## Is Canadian Pacific Rail Ltd. All Hype or a Solid Investment?

### Description

It is hard to remember that it was only a couple of short years ago that Hunter Harrison emerged as the head of **Canadian Pacific Rail Ltd.** ([TSX:CP](#))([NYSE:CP](#)). Back in 2012, CP Rail was trading in the \$70.00 to \$80.00 range and was lagging far behind its main competitor **Canadian National Railway**. Fast forward to 2015 and CP Rail's stock price is trading at \$218.78, and already many of Hunter Harrison's 2016 targets have been met.

But is CP Rail on the fast track to continue its stock price gains or is the gravy train finally coming to an end?

### Slashing costs

One of CP Rail's main goals was to cut its operating ratio, which had been climbing significantly prior to 2012. In the railway's latest earnings report, the operating ratio has fallen to 59.8%, compared to 62.8% last year, well below the 65% CP Rail targeted to reach by 2016. Part of these savings are attributed to the thousands of rail cars and hundreds of locomotives that have been retired in recent years.

While these cuts may have helped improve the books and the stock price, customers of the railway have seen these cuts affect the railway's ability to move goods. A prime example from 2014 was the inability to move record grain crops, and several failure-to-deliver fines levied against CP Rail by the Federal government.

While the cuts to the operating ratio are ahead of schedule, the railway is still lagging behind CN Rail's operating ratio of 58.8%, not to mention lagging behind in overall goods moved.

### Q4 results

Part of the Harrison era of targets are the doubling of earnings per share and \$10 billion of increased annual revenues. In the fourth quarter of 2014, CP Rail managed to post revenues of \$1.76 billion up from \$1.6 billion in Q4 2013, this is also up from the \$1.67 billion in revenues during Q3 2014. Net income managed to rise to \$451 million (\$2.66 per share) up from \$82 million per share during the

same period last year. It seems like a great increase in net income but Q4 2013 was a relatively poor quarter for CP Rail as Q3 2014 saw net income of \$324 million. This is still a respectable increase in net income and managed to beat analysts' expectations of \$2.56 per share.

When we look at year-end results, we see revenues of \$6.62 billion up from \$6.13 billion in 2013. Here are some numbers to get excited about in 2014: CP Rail posted a net income of \$1.47 billion up drastically from \$875 million in 2013. In terms of earnings per share, 2014 came in at \$8.54 up from \$5.00 per share in 2013.

## Crude by rail

Moving crude by rail has been a sensitive issue in Canada for quite some time now and it doesn't appear that this trend is ready to slow down just yet. Conflicting reports are emerging concerning the short-term future of crude by rail. **Enbridge** is projecting that crude by rail shipments in Western Canada will continue to rise despite current prices. Production is expected to actually rise in 2015 and with many pipelines already near maximum capacity about 500,000 barrels of crude per day must be moved somehow.

CP Rail on the other hand has cut its projections after it moved 60,000 few carloads in the past quarter than originally projected. This is alarming on two counts; first because the oil industry seems to be in disagreement with the railways, and second, CP Rail is expecting that 30% of its targeted \$10 billion in added revenues is supposed to come from oil shipments and new oil by rail terminals.

## Should you buy?

Investors have been enjoying quite the ride with CP Rail, but much of its stock growth has come from the market's reaction to its slashing of costs. Eventually CP Rail will run out of things to cut and will be forced to get creative to maintain the favor of investors. One strategy already in the works is the potential sale and/or development of 30 properties, including downtown land in Toronto, Montreal, and Edmonton.

If CP Rail is forced to begin selling off its land holdings to continue this stock price rise, then reality is setting in that the stock surge might be just about over.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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## Date

2025/08/24

**Date Created**

2015/01/26

**Author**

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