What Canadian Pacific Railway Ltd. Doesn’t Want You to Know

Description

For quite some time now, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) has been the top railroad company here in Canada, with **Canadian Pacific Railway Ltd.** (TSX:CP)(NYSE:CP) following behind. Due to the leadership of former CN Rail boss Hunter Harrison, CP Rail has seen its operating expenses plummet and its stock soar to new heights, though it still lags behind CN Rail’s revenues.

While CN Rail has been relying on consistent increases in the amount of rail cars moved per year to boost its stock, CP Rail has relied on cutting expenses and “retiring” locomotives and equipment. What CP Rail doesn’t want you to realize is that it is quickly running out of expenses to cut. Now CP Rail is looking into selling off up to 30 parcels of land, including prime real estate in the cores of Toronto, Montreal, and Edmonton.

This land sell-off is to act as a buffer between CP Rail and investors who are becoming accustomed to the direction the stock has taken in the past three years. Once this strategy runs out and the blockbuster financial reports return to normal, people will once again see what a long-term gem CN Rail actually is.

CN Rail’s Q4 results

While CN Rail hasn’t had the media attention that CP Rail has had recently, it has quietly increased its Q4 revenues by 36% compared to last year. When we look at the 2014 year-end totals, we see revenues of $12.1 billion, up from last year’s total of $10.6 billion. In comparison, CP Rail only managed revenues of $6.62 billion during 2014. Net income for CN Rail climbed to $844 million in 2014 from $635 million in 2013, but fell short in comparison to CP Rail’s 2014 net income of $1.4 billion.

When it comes to railroad companies, one of the most closely watched financial results is the operating ratio. The ability to manage this aspect of the financials is one of the biggest drivers of share price at the moment. A couple of years ago, both CP Rail and CN Rail were heading towards the 70% range, and this was a large factor in the leadership change over at CP Rail. Fast forward to 2015, and CP Rail has managed to cut this ratio down to 59.8%, but many have grown cautious about CP Rail's ability to maintain service levels.

Many are also unsure of how long the operating ratio can remain in this range, feeling that CP Rail could be mortgaging its future in order to drive up the share price now. CN Rail, on the other hand, has been less drastic in its efforts to reduce its operating ratio and has still been able to reduce it to 60.7%.

Record dividend boost

CN Rail had a great 2014 and has not forgotten about its investors, so for the 19th consecutive year, CN Rail has raised its dividend. At 25%, this increase is the largest in the company's history and will bring the annualized payout to $1.25. With this dividend increase, the dividend payout ratio has also been earmarked to increase to 35% from the current ratio of 30%.

2015 guidance

While CP Rail has been retiring locomotives, CN Rail has announced that it would be purchasing 90 new locomotives as part of its $2.6 billion 2015 capital budget. Along with the added capacity and current market conditions, CN Rail is projecting that its earnings per share (EPS) will grow by double digits during 2015.

CN Rail justifies this double-digit EPS growth prediction by estimating that it will move an additional 75,000 carloads of crude oil (and similar products) in 2015, along with an overall increase of 3-4% in the amount of freight moved.

While CP Rail has been like the proverbial hare, with its stock continuing soar, CN Rail has been the tortoise of the duo, trading recently around its average target price of $87.00. CN Rail may not bring your portfolio instant gains over 2015, but it is a stock that will deliver consistently for decades to come, without the fear of aggressive cost cutting undermining its ability to perform.

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1. Investing

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