



3 Reasons to Sell Canadian Pacific Railway Limited Shares Today

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) is once again in the news, this time for failing to reach an agreement with the Teamsters union. As a result, more than 3,000 locomotive engineers and conductors are set to go on strike.

This alone does not mean you should sell your CP shares. The Canadian government will likely intervene, forcing the workers back to work, and this would only take about a week. This is exactly what happened back in 2012, when 4,800 conductors and yard workers walked off the job. At the time, CP was accused of not negotiating in good faith, knowing the government would intervene. And that may very well be the case today.

So investors shouldn't be too concerned about the strike. But there are other reasons to sell the company's shares. Below we look at the top three.

1. The decline in oil prices

The growth in the crude by rail business has been nothing short of astronomical. Just from 2012 to 2013, the business grew 10-fold. And it was supposed to be the main source of growth for the rails in the years ahead. For example, CP gets about 10% of its revenue from oil shipments, yet it thinks that oil will account for a third of growth going forward.

And crude-by rail is still growing — this year, CP expects to move 140,000 tank cars, up from 110,000 last year. But the company had previously expected to haul 200,000 cars in 2015. If the oil slump worsens, the news could get even worse.

It hasn't just been lower oil prices that have dented CP's crude-by-rail forecast. It's also been lower differentials for Canadian oil. In other words, Canadian oil producers can't get so much of a premium by shipping their product to the U.S. Gulf Coast.

2. Other headwinds

CP's earnings growth in the past couple of years has been very impressive — from 2012 to 2014,

diluted earnings per share jumped from \$2.79 to \$8.46. Part of this has been due to good fortune (the growth of crude-by-rail is a good example), but the company's management has performed very well too. To put this in perspective, CP's operating ratio (which measures operating expenses as a percentage of revenue) has gone from worst to first in the industry since Hunter Harrison took over as CEO.

But growth will not be so easy in the future. This is mainly because there's so much less room for improvement, now that CP is the most efficient major railroad in North America. The company also has a worse track network than rival **Canadian National Railway Company**. And government regulation continues to be a hinderance.

3. The price is not right

CP still has some very ambitious growth plans. In fact the company hopes to double annual earnings per share by 2018. But even if those goals are met, the shares are likely overpriced.

To be more specific, CP earned about \$8.50 per share in 2014. If that number does in fact double, then that equals \$17.00 per share by 2018. If the stock then trades for 15 times earnings, you're looking at a \$255 stock by early 2019. Under this scenario, shareholders will have earned a 3% annual return, including dividends.

And this earnings growth goal was set before the oil price slump. So even a 3% return may be too much to expect from CP shares. Your best bet is to look elsewhere.

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