3 Reasons to Invest in Canadian Pacific Railway Limited Today

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), one of the largest rail network operators in North America, has watched its stock outperform the overall market in 2015, rising over 3.6%, and it could continue to do so for the next several years. Let's take a look at three of the top reasons why you should consider establishing a position today.

1. Record earnings to support a higher stock price

Canadian Pacific released record fourth-quarter earnings results on January 22, and its stock has responded by rising over 2% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared to the year-ago period:

1. Adjusted net income increased 36.1% to $460 million
2. Adjusted earnings per share increased 40.3% to $2.68
3. Total revenues increased 9.5% to $1.76 billion
4. Freight revenues increased 9.5% to $1.72 billion
5. Total carloads transported increased 0.6% to 690,000
6. Revenue per carload increased 8.6% to $2,489
7. Adjusted operating profit increased 29.4% to $708 million
8. Adjusted operating ratio improved 610 basis points to 59.8%, the lowest quarterly ratio in the company's history
9. Repurchased 5,205,700 shares of its common stock for approximately $1.1 billion
10. Weighted average number of diluted shares outstanding decreased 2.1% to 174.4 million

2. A very positive outlook on fiscal 2015

In its earnings report on January 22, Canadian Pacific also provided its outlook on fiscal 2015, and is calling for a record-setting yearly performance. Here's a breakdown of what it expects to accomplish:

- 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% from the $6.62 billion reported in fiscal 2014
- Operating ratio below 62% compared to the 64.7% ratio reported in fiscal 2014

3. The stock trades at inexpensive forward valuations

At today's levels, Canadian Pacific's stock trades at 27.3 times fiscal 2014's adjusted earnings per share of $8.50, which seems sustainable, but it trades at just 21.3 times fiscal 2015's estimated earnings per share of $10.91 and only 18.2 times fiscal 2016's estimated earnings per share of $12.75, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 25.2.

I think Canadian Pacific's stock could consistently command a fair multiple of at least 25, which would place its shares around $272.75 by the conclusion of fiscal 2015 and around $318.75 by the conclusion of fiscal 2016, representing upside of more than 17.5% and 37%, respectively, from current levels.

Should you invest in Canadian Pacific Railway today?

Canadian Pacific Railway Limited represents one of the best long-term investment opportunities in the market today. It has the support of record earnings from fiscal 2014; its outlook on fiscal 2015 calls for another record-setting performance; and its stock trades at very inexpensive forward valuations. Foolish investors should take a closer look and strongly consider making Canadian Pacific a core holding today.

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