Does Canadian Pacific Railway Limited's Record Q1 Earnings Signal a Buying Opportunity?

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), one of the largest rail network operators in North America, announced record first-quarter earnings on the morning of April 21 that also surpassed analysts' expectations, but its stock has responded by making a slight move to the downside. Let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign.

Breaking down the record-setting results

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

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	$2.26	$2.14	$1.42
Revenue	$1.67 billion	$1.65 billion	$1.51 billion

Source: Financial Times

Canadian Pacific's adjusted earnings per share increased 59.2% and its revenue increased 10.3% compared with the first quarter of fiscal 2014. The company's immense earnings-per-share growth can be attributed to its adjusted net income increasing 49.4% to an all-time quarterly high of $375 million. It was helped by its operating ratio improving 880 basis points to a first-quarter record 63.2%. Its double-digit revenue growth can be attributed its total number of carloads increasing 3.9% to 642,000 and its revenue per carload increasing 6.5% to $2,541, which led to total freight revenues increasing 10.6% to $1.63 billion.

Here's a quick breakdown of six other notable statistics from the report compared to the year-ago period:

1. Freight gross ton-miles increased 5% to 65.19 million
2. Revenue ton-miles increased 3.9% to 36.06 million
3. Operating income increased 44.7% to $612 million
4. Cash provided by operating activities increased 93.4% to $555 million
5. Free cash flow increased 1,980% to $312 million
6. Weighted average number of diluted shares outstanding decreased 6% to 166.3 million

Is today the day to buy shares of Canadian Pacific?

I do not think the post-earnings drop in Canadian Pacific's stock is warranted and actually represents a very attractive long-term buying opportunity. I think this because the stock trades at very inexpensive valuations, including just 21.6 times fiscal 2015's estimated earnings per share of $10.92 and only 18.4 times fiscal 2016's estimated earnings per share of $12.79, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 25.2.

With all of the information provided above in mind, I think Canadian Pacific Railway represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider using today's weakness as a buying opportunity.

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