Canadian Pacific Railway Limited Is Not the Railway You're Looking for

Description

There are two railroads here in Canada. There's the one I love, which is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). Then there is **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP). If I were to channel my inner Jedi and wave my hand, I'd try to convince you that Canadian Pacific is not the railway you need.

First and foremost, it is an incredibly overpriced railway. Its P/E is 23.63, which is much higher than the sector average. This is to be expected because the company has, for the past few years, done a very good job of growing and cutting in a way that has investors happy. That has resulted in a very high stock price that, if you had bought a few years ago, would have you sitting on immense capital gains.

But what concerns me about this stock is that growth is going to slow down. Investors are concerned that the drop in oil prices is going to have implications on how much oil is shipped around the country. That will potentially cut into the overall revenue that Canadian Pacific can bring in.

There is more than just one way to increase earnings than with revenue alone. Canadian Pacific used to be an incredibly inefficient company. Its operating ratio was in the 70s and 80s. Now, though, it has been able to cut and streamline its operations so efficiently, it now is at a company best 63.2%. Every percentage point that it drops is more money that Canadian Pacific earns in profit on a dollar of revenue.

Normally, a company that is good at cutting is really worth adding to your portfolio. But there's only so much that Canadian Pacific can cut and a lot of that is already factored into the price, so I don't expect it to jump much higher.

Finally, while so many investors say it is an amazing company, it's a relatively weak yield in comparison to other dividend-paying stocks. Being paid only 0.66% just doesn't jive with me, especially when we're talking about such high prices. The company needs to get that dividend going before I'm going to suggest people buy this stock.

There is a caveat

There is one slight caveat to this. Over the past month, the stock price has dropped from over $240 to right around $211. That's a significant drop. And there's really no end in sight for how low this stock can go because investors are concerned about additional regulations that are being imposed on railroads.

Therefore, while I don't think you should buy this stock today, that doesn't mean that it might not become the railroad you're looking for. Wait for it to find some support and see where the price is. If the fundamentals then are better, I say act. However, with both Canadian railroads dropping in price over the past month, you may just want to go with the one I love: Canadian National.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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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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