3 Reasons Why Canadian Pacific Railway Limited Belongs in Your Portfolio

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), one of the largest rail network operators in North America, has been one of the most disappointing stocks in the TSX 60 Index in 2015. It has fallen over 2.5% as the index has returned over 3.5%, but it has the potential to be one of the best performing stocks going forward. Let's take a look at three of the primary reasons why this could happen and why you should buy the stock today.

1. Record first-quarter earnings to support a near-term rally

Canadian Pacific released record first-quarter earnings results on the morning of April 21, but its stock has responded by falling over 8% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 49.4% to an all-time quarterly high of $375 million
2. Adjusted earnings per share increased 59.2% to $2.26, surpassing analysts' expectations of $2.14
3. Total revenues increased 10.3% to $1.67 billion, surpassing analysts' expectations of $1.65 billion
4. Freight revenues increased 10.6% to $1.63 billion
5. Total carloads transported increased 3.9% to 642,000
6. Revenue per carload increased 6.5% to $2,541
7. Operating income increased 44.7% to $612 million
8. Operating margin improved 880 basis points to a first-quarter record 63.2%
9. Cash provided by operating activities increased 93.4% to $555 million
10. Free cash flow increased 1,980% to $312 million

2. The stock trades at inexpensive forward valuations

At today's levels Canadian Pacific's stock trades at just 19.8 times fiscal 2015's estimated earnings per share of $10.96 and only 16.9 times fiscal 2016's estimated earnings per share of $12.88, both ofwhich are very inexpensive compared with its five-year average price-to-earnings multiple of 25.2 andthe industry average multiple of 25.5.

I think Canadian Pacific's stock could consistently command a fair multiple of at least 24, which would place its shares upwards of $263 by the conclusion of fiscal 2015 and upwards of $309 by the conclusion of fiscal 2016, representing upside of more than 20% and 42%, respectively, from current levels.

3. A dividend that has been steadily increased

Canadian Pacific pays a quarterly dividend of $0.35 per share, or $1.40 per share annually, giving its stock a 0.6% yield at today's levels. A 0.6% yield is far from impressive, but it is very important to note that the company has increased its dividend three times in the last five years, and its increased amount of free cash flow could allow for another increase in the very near future.

Should you invest in Canadian Pacific Railway today?

I think Canadian Pacific Railway represents one of the best long-term investment opportunities in the market today. It has the support of record first-quarter earnings results, its stock trades at inexpensive forward valuations, and the company has steadily increased its dividend, showing that it is dedicated to maximizing shareholder returns. With all of the information provided above in mind, I think Foolish investors should strongly consider establishing positions in Canadian Pacific today.

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