The 3 Biggest Reasons Why I Don’t Own Canadian Pacific Railway Limited

Description

Over the past few years, shareholders of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) have done extraordinarily well. Since September 2011 the company’s stock price has more than quadrupled.

So, is this a stock worth buying today? Well, not necessarily. Below are the top three reasons why.

1. A poor track network

In railroading, it’s all about the network. Rail operators with strong track networks are simply able to serve their customers more effectively, which helps drive profits in the long run.

CP’s track network has two big shortcomings. First of all, it does not reach the East Coast nor the Gulf Coast. So, if an exporter wants to reach European markets, or if an oil company wants to ship to refineries on the Gulf Coast, CP can’t get the job done on its own. Second, CP’s network passes through the congested Chicago hub, where trains routinely get backed up for 24 hours.

This is why CP tried to merge with American railroad **CSX Corporation** back in October. Unfortunately, those efforts failed, leaving CP in a difficult position.

2. Low oil prices

We all know that crude-by-rail volumes have grown spectacularly, and this growth is under threat from low oil prices. But there’s another reason why low oil prices are bad for the rails: trucking becomes more competitive.

First, some context. Rail is far more fuel efficient than trucks are, but it doesn’t have the same flexibility. So, if you’re shipping a large volume of goods a long way, rail is the answer. For smaller shipments and shorter distances, you’re better off hiring a trucker.

For those shipments in between, trucks and rails compete fiercely. And because trucks aren't as fuel efficient, they benefit more from a fall in fuel prices.

So, trucks are well positioned to steal market share. This won't happen overnight, but as long as oil prices stay low, that's one more headwind for the rails to deal with.

3. Still an expensive stock

CP is clearly facing some big headwinds. Yet if you looked at its share price, you would think it's a high-growth tech company.

The numbers tell the story. CP trades for more than $200 per share, even after a recent price drop. Yet the company made only $8.46 in earnings per share last year. Free cash flow per share was even lower, coming in at $3.86.

Thus if there's any slowdown in CP's business, there's a lot of room for its shares to fall. You shouldn't want any part in that.

CATEGORY

1. Investing

TICKERS GLOBAL

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