Is Canadian Pacific Railway Limited the High-Growth Company for You?

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) has been focusing on providing the best service to its customers at the lowest cost. By best service, Canadian Pacific means to consistently deliver what was promised, based on each client's unique requirements.

And by lowest cost, Canadian Pacific doesn't mean lowest price, but to charge a fair price for delivering a faster, better, more reliable service that gives value to its customers.

Canadian Pacific's philosophy of best service at lowest cost is great, but how exactly is it achieving it?

Network and lines of business

Canadian Pacific's 13,700 mile network of tracks spans from Vancouver in the west to the port of Thunder Bay, Canada's primary Great Lakes bulk terminal in the east. In between, the network reaches the U.S. Midwest and the U.S. Northeast as well.

Its lines of business, based on freight revenue in 2014, is well diversified with the major components as follows: Canadian grain (15% of revenue), domestic intermodal (12%), metals, minerals, and consumer products (11%), chemicals and plastics (10%), coal (10%), international intermodal (9%), and U.S. grain (8%).

Where is growth coming from?

A lower cost basis will not only contribute to earnings, but will also increase Canadian Pacific's competitiveness. By having a lower breakeven point, Canadian Pacific can compete for business it couldn't compete for before.

Business durability

The ability to bring in more business will also increase the company's durability. Canadian Pacific was built to thrive and grow in all market conditions. When it delivers the highest levels of service at the lowest cost, Canadian Pacific can weather any storm.

No matter what's happening in the world or in the economy, goods need to be transported. And Canadian Pacific is here to do that safely and reliably.

Management

Mr. Hunter Harrison was appointed the chief executive officer at Canadian Pacific in June 2012. Previously, he served multiple roles at **Canadian National Railway Company**. From 1998 to 2002, he served as the executive?? vice president and chief operating officer, and from 2003 to 2009, he served as president and chief executive officer. Mr. Harrison was recently named 2015 Railroader of the Year by railroad industry trade journal, *Railway Age*.

Company goals

Canadian Pacific has a set of goals for 2018: it aims to focus on growing revenue, increasing earnings per share (EPS), and generating cash. It's aiming for $10 billion in full-year revenue, doubling its EPS, and $6 billion in cumulative cash flow before dividends.

How the business has been doing and forecasts

Since Mr. Harrison took the helm, it seems the quarterly dividend has been frozen at $0.35 per share, but the railroad company has gone through some amazing transformation in improving efficiency, reducing cost, and driving growth.

Between 2012 and 2014, revenue grew from 5.7 billion to 6.6 billion, or a compounded annual growth rate of 7.8%, essentially doubling the growth rate of 3.8% between 2005 and 2012.

Canadian Pacific's operations of the railroads are becoming more efficient as its operating ratio trends down from 2013's 70% to 2014's 65% to the expected ratio of less than 62% in 2015.

Additionally, in its first-quarter earnings report, Canadian Pacific also reiterated its forecast for 2015: revenue growth of 7-8% and EPS growth of at least 25%.

Some investors are concerned about crude prices, but crude only made up 7% of Canadian Pacific's freight revenue in 2014 and 6% of 2015's first-quarter revenue; that is a relatively small portion.

In the first quarter of 2014 Canadian Pacific announced a one-year program to repurchase up to 5.3 million common shares, or three percent of outstanding shares. So far, there hasn't been an announcement for further repurchases.

In conclusion

If you're looking for a growth company, Canadian Pacific may be the investment you are looking for. At about $211 a share, it is fairly priced at a price-to-earnings ratio of over 22, with the company expecting EPS to grow over 25% for this year. However, high earnings growth is difficult to achieve, so shareholders should be prepared for a price dip if the company doesn't meet that number.

As usual, it's a better strategy to buy shares on multiple occasions than to buy a lump sum since we can't predict market actions.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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