Canadian Pacific Railway Limited: Should Investors Buy, Hold, or Sell?

Description

Shares of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) are down more than 15% over the past three months, and investors are trying to figure out which direction the stock is headed next.

Let's take a look at Canadian Pacific to see if the company deserves to be in your portfolio right now.

Earnings

Canadian Pacific reported strong Q1 2015 adjusted earnings of $2.26 per share. That was good for a year-over-year increase of 59%.

Revenue jumped 10% to a first-quarter record of $1.67 billion and net income hit $320 million in the quarter, another all-time high. The company gets revenue from more than 10 different business segments. Freight shipments of grain, chemicals, and fertilizers all increased substantially over the previous year.

Crude oil and automotive were the worst performing segments, with each dropping by 6% compared with Q1 2014.

The numbers are fantastic, but the market tends to be forward-looking, and analysts are concerned about the impacts of new safety requirements and the ongoing oil rout.

Efficiency

Canadian Pacific reported a record operating ratio of 63.2% for the quarter. Analysts watch the metric closely because it indicates how well the railway is being run.

Canadian Pacific was historically one of the most inefficient companies in the industry, but that has changed significantly in the past three years.

In 2012 rail veteran Hunter Harrison became Canadian Pacific's new CEO. At the time Canadian Pacific had an operating ratio of about 80%. Harrison cut costs across the company by slashing staff numbers and closing inefficient rail yards. The results have been very impressive and the margin improvements are one of the key reasons the stock is still up more than 150% since Harrison took control.

However, the easy gains on the expense side have already been made, which means the strong profit growth could slow down if revenues don’t continue to climb.

Regulation changes

Over the course of the next three years, all railways that carry crude oil in the U.S. and Canada are going to incur costs connected to safety upgrades. They are also required to reduce train speeds.

This could throw some headwinds at Harrison’s plan to double earnings per share because he wants to run faster trains and increase the number of cars on several routes.

Value play?

At 16 times forward earnings, Canadian Pacific is certainly cheaper now than it was three months ago, and investors are starting to get excited because it is trading pretty much in line with **Canadian National Railway**.

The only concern is the market could be underestimating some of the current challenges, including the dramatic slowdown in the oil sector.

What should investors do?

Canadian Pacific is a solid long-term investment. If you already own the stock, it is probably a hold at this point. New investors might want to wait until Q2 earnings come out before starting a position.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

Category

1. Investing

Date
2025/08/30
Date Created
2015/07/09
Author
aswalker