3 Reasons Why Canadian Pacific Railway Limited Is a Strong Buy Today

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)), one of the largest rail-network operators in North America, has watched its stock widely underperform the overall market in 2015. It has fallen over 14% as the TSX Composite Index has fallen just over 6%, but it has the potential to turn things around and widely outperform from this point forward. Let's take a look at three reasons why this could happen and why you should be a long-term buyer of the stock today.

1. Its record earnings results could support a rally

On the morning of July 21 Canadian Pacific released record earnings results for its three and six-month periods ending on June 30, 2015, but its stock has responded by falling over 7% in the weeks since. Let's take a look at 10 of the most notable statistics from the first half of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 25.2% to $779 million
2. Adjusted earnings per share increased 33.5% to $4.70
3. Total revenues increased 3.9% to $3.32 billion
4. Freight revenues increased 4% to $3.24 billion
5. Total carloads transported increased 0.2% to 1.31 million
6. Freight revenue per carload increased 3.7% to $2,473
7. Operating income increased 24.6% to $1.26 billion
8. Operating margin improved 620 basis points to 62.1%
9. Cash provided by operating activities increased 22.3% to $1.14 billion
10. Adjusted return on capital employed improved 250 basis points to 16.2%

2. Its stock trades at attractive forward valuations

At current levels, Canadian Pacific's stock trades at just 18.8 times its median earnings-per-share outlook of $10.20 for fiscal 2015 and only 15.9 times analysts' estimated earnings per share of $12.08 for fiscal 2016, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 25.7 and the industry average multiple of 26.3.

I think Canadian Pacific's stock could consistently command a fair multiple of at least 22, which would place its shares upwards of $224 by the conclusion of fiscal 2015 and upwards of $265 by the conclusion of fiscal 2016, representing upside of more than 16% and 38%, respectively, from today's levels.

3. It is dedicated to maximizing shareholder value

Canadian Pacific pays a dividend and has been actively repurchasing its shares, showing that it is dedicated to maximizing shareholder value. First, the company pays a quarterly dividend of $0.35 per share, or $1.40 per share annually, which gives its stock a 0.7% yield at today's levels. A 0.7% yield is not impressive by any means, 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.

Second, Canadian Pacific has been actively repurchasing its shares, including the repurchase of 10.48 million shares of its common stock for a total cost of approximately $2.09 billion in fiscal 2014 and the repurchase of 5.23 million shares of its common stock for a total cost of approximately $1.08 billion in the first half of fiscal 2015. These repurchases will not only boost earnings-per-share growth going forward, but will also increase the market value of its remaining shares.

Is Canadian Pacific the missing piece to your portfolio?

I think Canadian Pacific Railway represents one of the best long-term investment opportunities in the market today. It has the support of a record financial performance in the first half of fiscal 2015, its stock trades at inexpensive forward valuations, and it has shown a strong dedication to maximizing shareholder value through dividends and share repurchases. Foolish investors should strongly consider beginning to scale in to positions today.

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
2015/08/21

Author

jsolitro

Footer Tagline

Footer Tagline