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1 Top Bill Ackman Stock to Buy Today

Description

One way to build a strong portfolio is to follow great investors and their stock picks, like Bill Ackman, founder of Pershing Square Capital Management. Ackman was ranked among the top 20 hedge fund managers last year in terms of the profits he made for investors.

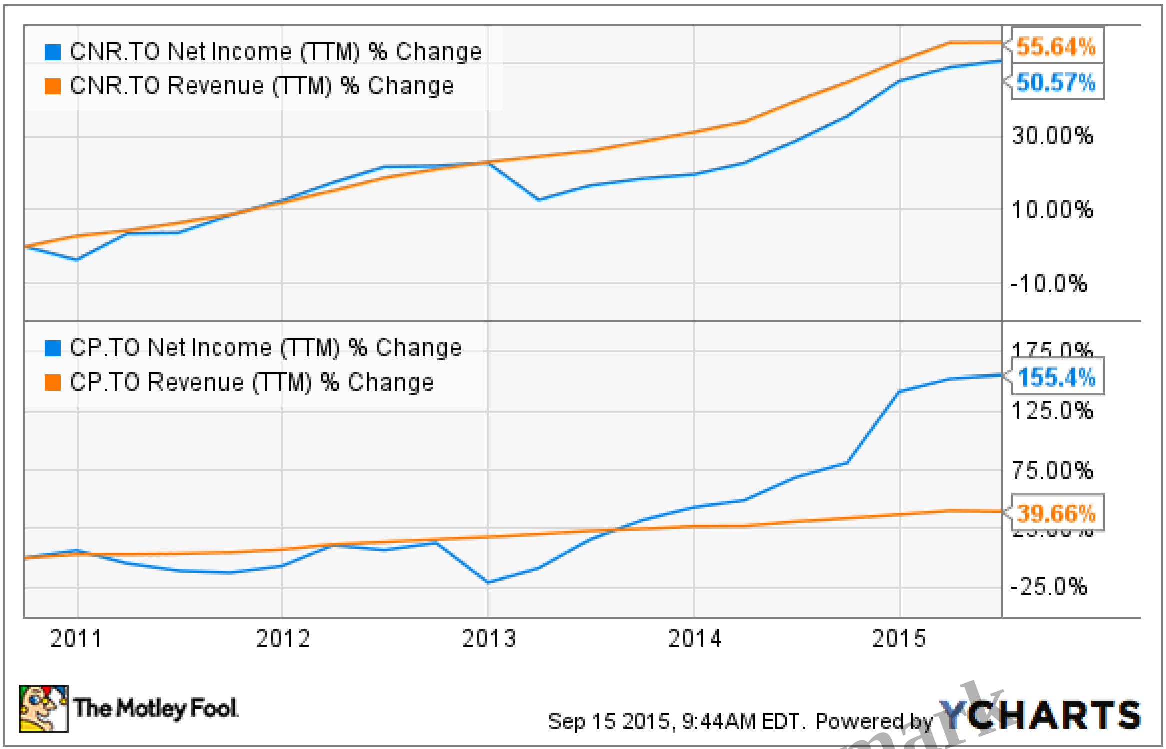
One of his best investments to date has been in the railroad giant, **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP). The stock crossed $240 last year, more than quadrupling since 2011 when Ackman first bought the stock. The stock hasn't taken a breather ever since Ackman successfully replaced the company's CEO with his choice, Hunter Harrison, giving activist investing a whole new push. It's only now that Canadian Pacific has given up some of those gains, having shed about 15% year-to-date.

Needless to say, this drop in Canadian Pacific shares presents a great opportunity for long-term investors. And I don't say this just because a successful investor backs the stock.

Thanks to its recent slide, Canadian Pacific is trading at traditionally low valuations today.

[CP](#) data by [YCharts](#)

While that makes the stock attractive, the company has done an excellent job turning smaller incremental sales into big profits over the years. In the past five years, Canadian Pacific's net income has grown nearly 155% on less than 40% growth in revenue. In sharp contrast, rival **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) has grown its net profits by roughly the same percentage as revenue during the period.



[CNR Net Income (TTM)] data by [YCharts]

Canadian Pacific's operating ratio—a key measure of efficiency for railroads that compares operating expenses to its net sales—hit 60.9% in the last quarter, its lowest ever. In other words, the company is striving hard to curtail costs as lower commodity prices are putting pressure on shipments and revenue.

For investors, Canadian Pacific has the potential to generate much bigger returns going forward. The company has expanded its free cash flow by more than 300% over the past five years, even as its long-term debt rose just about 23% over the period. Strong cash flows allow room for a lot of dividend increases in coming years, especially considering that Canadian Pacific is currently paying out a meager 15% of its profits in dividends.

Yet, despite a smaller payout compared with Canadian National's 28% dividend payout ratio, shareholders in Canadian Pacific have enjoyed 25% return of equity over the past 12 months—at par with Canadian National.

Knowing Bill Ackman's strategy to use his influence to push for changes within the companies he invests in to unlock greater value, I wouldn't be surprised to see him push Canadian Pacific to increase dividends in the future.

Harrison has done a good job ever since he took over, wiping out several operational inefficiencies within Canadian Pacific to bring it to where it is today. For example, an operating ratio in low 60s was considered too ambitious by some analysts.

The business of railroads is the kind you'll want to invest in forever, and Canadian Pacific is a smart choice at today's price. Oh, and did I tell you that the company just sold a 100-year bond? Yes, someone's convinced Canadian Pacific will be around for at least another century. If a company can invoke that kind of faith in the bond market, there must be something to it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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