Canadian Pacific Railway Limited Should Be a Part of Your Portfolio

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) is a Calgary-based transcontinental railway with over 14,000 miles of rail laid across both Canada and the United States and over 14,000 employees. The company provides rail and intermodal transportation services, serving the primary metro areas from Montreal to Vancouver, as well as the Northeast and Midwest regions of the United States.

default watermark

Primary freight and intermodal traffic commodities include Canadian and U.S. grain, coal, potash, sulphur and fertilizers. From a merchandising perspective, freight primarily consists of automotive parts, crude oil, forest products, metals, and minerals.

In determining whether or not Canadian Pacific is a good fit for your portfolio, let's first take a look at how the company is doing, and how turnaround efforts are proceeding.

How is Canadian Pacific doing?

Canadian Pacific is trading at just over $196, with the 52-week high at $247.56. Year-to-date, the stock is down over 12%. Longer term, the five-year figure is close to 210%.

In the most recent quarter, Canadian Pacific reported its highest quarterly revenue of $1.65 billion. Net income was also at an all-time quarterly high of $390 million, or $2.36 per diluted share, an improvement of 12%. Canadian Pacific's quarterly dividend comes in at $0.35, which has also steadily increased over the years.

Canadian Pacific revised its initial forecast for the year, now expecting a more conservative revenue growth of 2-3%, which can be attributed to lower freight revenues and a sluggish economy.

Turnaround efforts are showing promise and results

A number of initiatives have been underway at Canadian Pacific to not only trim expenses, but to make the company more efficient and reduce travel time between larger hubs.

Some examples of this include

- trimming the workforce size down from nearly 15,000 to just over 14,000;
- reducing travel times for intermodal traffic between Toronto and Calgary by 20 hours; and
- expanding a dedicated program for grain shippers in western Canada.

The efforts have been largely successful. Even with volume and revenues slipping in the most recent quarter, the company still managed to post the highest quarterly revenue and a lower operating ratio.

Keith Creel, president and chief operating officer, recently commented on the turnaround efforts in the most recent quarter: “We moved trains faster, took out train miles and had fewer train starts, which lowered costs. Revenue was a little less in the quarter, but costs were a whole lot less.”

Growth prospects for Canadian Pacific

When it comes to railroad companies, there are few companies that have the footprint that Canadian Pacific has, and the investment needed to build and operate a rail network makes it nearly impossible for a new competitor to emerge.

Lower freight volumes in the most recent quarter have reduced the value of both Canadian Pacific and competitors alike, but there is significant reason to be optimistic about Canadian Pacific and the company’s growth prospects, which should drive the stock upward should the current turnaround continue.

default watermark

In my opinion, diversifying your portfolio with a small stake in Canadian Pacific is not only a great idea, but should the turnaround efforts continue to yield results, that small stake could be worth much more. The recent drop in price makes this stock a bargain and the dividend payout is an added bonus.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/02
Date Created
2015/09/18
Author
dafxentiou

default watermark

default watermark