



## Canadian Pacific Railway Limited: Is Now the Right Time to Buy?

### Description

**Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) is getting renewed interest from investors after a sell-off took the price down by more than 25%.

Let's take a look at the current situation to see if the rally could continue.

### Earnings outlook

CP reported Q2 2015 adjusted earnings of \$2.45 per share, 16% higher than the same period last year.

Revenues for the quarter were essentially flat compared with Q2 2014. For the full year, management expects to see revenue growth of 2-3% and adjusted diluted earnings per share of \$10-10.40.

The company achieved solid Q2 results despite the slowdown in the energy sector, which saw a 36% drop in freight revenue. Forestry products helped pick up the slack, with a revenue gain of 7%.

### Efficiency gains

CP used to be known as one of the worst-run railways in North America, with an operating ratio above 80%. The metric is important because it essentially measures the amount of revenue the company is using to run the business.

In 2012, the board brought in industry veteran Hunter Harrison to run the company, and things have improved dramatically under his watch. Harrison reduced staff, closed inefficient yards, and took a fine-toothed comb right through the organization, looking for opportunities to reduce costs.

For Q2 2015 the operating ratio was 60.9%, down from 65.1% in the same quarter last year.

At this point, most of the low-hanging fruit has already been picked on the expense side, and the company is going to have to work harder to squeeze out more gains in the coming quarters.

### Dividends and share buybacks

The company pays a quarterly dividend of \$0.35 per share that yields 0.70%. Free cash flow for the first six months of the year was \$485 million and only \$115 million went out as dividends, so there is ample room to increase the distribution.

CP likes to use its free cash flow to buy back stock. During Q2 the company repurchased 3.1 million shares.

### **Should you buy CP?**

The company continues to execute well on its cost-cutting efforts, but revenues are not growing and there is a risk that economic headwinds facing the commodity-heavy Canadian market will start to take a toll in the coming quarters.

The recent surge in the stock has come on the back of a big move in oil prices. That could be short-lived given the volatility the energy market has seen this year, so investors should be cautious about joining the rally.

As a long-term investment, CP is a solid name, but I would wait for the Q3 numbers to come out before starting a new position in the stock.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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