# Does Canadian Pacific Railway Limited's Q3 Earnings Beat Make it a Buy?

## Description

**Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP), the second-largest railway operator in Canada, announced better-than-expected third-quarter earnings results on the morning of October 20, and its stock has responded by rising over 2%. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher, or if we should wait for a better entry point in the trading sessions ahead.



### Surpassing the expectations with ease

Here's a breakdown of Canadian Pacific's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

| Metric | Q3 2015 Actual | Q3 2015 Expected | Q3 2014 Actual |
|---|---|---|---|
| Adjusted Earnings Per Share | $2.69 | $2.67 | $2.31 |
| Revenue | $1.71 billion | $1.69 billion | $1.67 billion |

*Source: Thomson Reuters Corp.*

Canadian Pacific's adjusted earnings per share increased 16.5% and its revenue increased 2.3% compared with the third quarter of fiscal 2014. The company's very strong earnings-per-share growth can be attributed to its adjusted net income increasing 6.8% to $427 million and its weighted-average number of diluted shares outstanding decreasing 8.5% to 158.7 million.

Its slight revenue growth can be attributed to its total freight revenue per carload increasing 5.1% to $2,493, which more than offset the negative impact of its total carloads transported decreasing 2.6% to 669,000.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Freight revenues increased 2.3% to $1.67 billion
2. Other revenues increased 2.4% to $42 million
3. Adjusted operating income increased 10.3% to $685 million
4. Operating ratio improved 290 basis points to 59.9%, the lowest operating ratio for the period in the company's history
5. Free cash flow increased 550% to $494 million
6. Ended the quarter with $661 million in cash and cash equivalents, an increase of 257.3% from the beginning of the quarter

**Could this be the start of a sustained rally higher?**

It was a fantastic quarter overall for Canadian Pacific given the weak economic climate it had to endure, so I think its stock has responded correctly by moving higher. I also think this could be the start of a sustained rally back towards its 52-week high, which it still sits more than 20% below, because its stock trades at very inexpensive valuations and because the company has shown a strong dedication to maximizing shareholder value through share repurchases.

First, Canadian Pacific's stock trades at just 19.1 times its median earnings per share outlook of $10.20 for fiscal 2015 and only 16.3 times analysts' estimated earnings per share of $11.96 for fiscal 2016, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 21.1, its five-year average multiple of 26.8, and its industry average multiple of 24.1.



Second, Canadian Pacific has been actively repurchasing its shares, including the repurchase 7.74 million shares for a total cost of approximately $1.56 billion in the third quarter and 12.97 million shares in the first nine months of fiscal 2015 for a total cost of approximately $2.64 billion, and this continues to play a significant role in its earnings-per-share growth. I think the company will continue repurchasing its shares over the next several years, which will make its remaining shares more valuable than ever.

With all of the information above in mind, I think Canadian Pacific Railway Limited represents one of the best investment opportunities in the market. Foolish investors should strongly consider beginning to scale in to long-term positions over the next couple of weeks.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

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

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