



## Canadian Pacific Railway Limited: a Great Buy

### Description

Here's an interesting fact: railroad stocks have, for the most part, declined over the past year. Shipments of crude oil, coal, and grain, which are all typically hauled by rail, are down as the country slipped into a recession.

That being said, **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) has done a tremendous job in making the company more efficient, while increasing earnings with each quarter. Couple this with a stock price that is still relatively low given the strong results, and investors are left with a recipe for a great long-term investment.

Let's take a closer look at the nation's second-largest railway operator and see if the company should be a part of your portfolio.

### Quarterly results

Canadian Pacific posted better-than-expected results for the most recent quarter, which have sent the stock up by 5% in the past week to just over \$199. During the most recent quarter, adjusted earnings per share beat expectations, coming in at \$2.69, an increase of 16%. Adjusted operating income also rose by 10% to \$685 million. Despite a 4% decline in shipped freight for the quarter, better pricing and currency offsets resulted in the company posting a record \$1.71 billion in revenue.

In terms of driving costs further south, a new labour agreement for 450 engineers was signed that should result in a decrease of compensation costs by as much as 40%.

### Increasing efficiency and results

Canadian Pacific has impressed investors in recent quarters with an almost laser-like focus on improving efficiency within the company. During the most recent quarterly report call, the company once again reported further efficiencies and outlined a path for even more cuts in the quarters ahead.

From an efficiency standpoint, the operating ratio for the company is now at a record low of 59.9% for the most recent quarter. This is in stark contrast to 2012 when that ratio was 83%. The expectation is

that up to \$400 million less in capital expenditures could be achieved in the next year, and that operating ratio could drop even further.

Part of those efficiency improvements mentioned relate to how the company is now able to haul greater volumes of freight on longer trains with fewer locomotives at higher speeds.

### **Diversified freight**

While the total freight shipped was down for the quarter, Canadian Pacific is much better suited to withstand a slump in one or more parts of the economy than its peers due to the fact that the freight mix at Canadian Pacific is much more diversified. A drop in crude shipments, for which revenue was down over 30%, only represents 7% of the freight mix.

CEO Hunter Harrison alluded to the strength of the diversified freight mix in an annual letter to shareholders: "We are not pinning our success as a railroad on the energy sector. Ours is a solid, highly diverse franchise, with a multitude of exciting growth opportunities."

Canadian Pacific is, in my opinion, an excellent option for investors seeking growth. The company is now outperforming in each quarter, with revenues constantly going up all while the company continues to become more efficient. Free cash continues to grow, most recently to \$979 million, a 60% increase over just a year ago.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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dafxentiou

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