



3 Compelling Reasons to Buy Canadian Pacific Railway Limited

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)), the second-largest rail network operator in Canada, has posted a poor performance in 2015, falling more than 9%, but it has risen over 9% in the last month, and I think it will continue higher from here. Let's take a look at three of the primary reasons why I think this will happen and why you should be a long-term buyer of the stock today.

1. Its strong earnings results could support a continued rally

On October 20, Canadian Pacific announced very strong earnings results for its three- and nine-month periods ending on September 30, 2015, and its stock has responded by rising over 6% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the first nine months of fiscal 2014:

1. Adjusted net income increased 18% to \$1.21 billion
2. Adjusted earnings per share increased 27% to \$7.39
3. Total revenues increased 3.4% to \$5.03 billion
4. Freight revenues increased 3.4% to \$4.91 billion
5. Total carloads transported decreased 0.8% to 1.98 million
6. Freight revenue per carload increased 4.2% to \$2,480
7. Adjusted operating income increased 19.4% to \$1.94 billion
8. Adjusted operating ratio improved 530 basis points to 61.3%
9. Cash provided by operating activities increased 25.2% to \$1.84 billion
10. Free cash flow increased 60.5% to \$979 million

2. Its stock is trading at very inexpensive forward valuations

At today's levels, Canadian Pacific's stock trades at just 19.8 times its median earnings-per-share outlook of \$10.20 for fiscal 2015 and only 17.1 times analysts' estimated earnings per share of \$11.84 for fiscal 2016, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 22.6, its five-year average multiple of 26.8, and its industry average multiple of 23.3.

I think the company's stock could consistently trade at a fair multiple of at least 22, which would place

its shares upwards of \$260 by the conclusion of fiscal 2016, representing upside of more than 28% from current levels. This projection is also very reasonable given that it would be just 6.1% higher than its 52-week high of \$245.05, which it reached back in March.

3. Its ongoing share repurchases will greatly benefit shareholders

Canadian Pacific has accelerated its share-repurchase activity in 2015, including the repurchase of 12.97 million shares in the first nine months of fiscal 2015 for a total cost of approximately \$2.64 billion, and this has already surpassed the 10.48 million shares it repurchased in all of fiscal 2014 for a total cost of approximately \$2.09 billion.

This repurchase activity will continue to boost its earnings-per-share growth going forward, and will make its remaining shares more valuable than ever.

Should you buy shares of Canadian Pacific right now?

Canadian Pacific Railway represents one of the best long-term investment opportunities in the market today, because its strong earnings results in the first nine months of fiscal 2015 could support a continued rally, because its stock is trading at inexpensive forward valuations, and because its share-repurchase activity will continue to have a positive impact on shareholders. All Foolish investors should strongly consider making it a core holding.

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