



## Canadian Pacific Railway Limited Misses Q4 Estimates: What Should You Do Now?

### Description

**Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)), Canada's second-largest railway operator, announced weaker-than-expected fourth-quarter earnings results on the morning of January 21, and its stock has responded by moving lower. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or if we should wait for an even better entry point in the trading sessions ahead.

### The results that fell short of expectations

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Adjusted Earnings Per Share	\$2.72	\$2.80	\$2.68
Revenue	\$1.69 billion	\$1.75 billion	\$1.76 billion

Source: *Financial Times*

Canadian Pacific's adjusted earnings per share increased 1.5% and its revenue decreased 4.1% compared with the fourth quarter of fiscal 2014. The company's slight earnings-per-share growth can be attributed to its weighted average number of diluted shares outstanding decreasing 9.9% to 154 million, which was able to more than offset its 8.9% decline in adjusted net income to \$419 million.

Its slight decline in revenue can be attributed to its total carloads decreasing 5.9% to 649,000, which could only be partially offset by its freight revenue per carload increasing 1.8% to \$2,534.

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

1. Freight revenues decreased 4.3% to \$1.65 billion
2. Other revenues increased 2.4% to \$42 million
3. Adjusted operating income decreased 4.4% to \$677 million
4. Operating ratio remained unchanged at 59.8%
5. Free cash flow increased 53% to \$176 million
6. Repurchased 577,800 shares at a weighted-average price of \$196.30 per share for a total cost of approximately \$113 million

Canadian Pacific also provided its outlook on fiscal 2016. The company is calling for double-digit earnings-per-share growth compared to the adjusted \$10.10 earned in fiscal 2015, an operating ratio below 59%, and capital expenditures of approximately \$1.1 billion.

### **What should you do with Canadian Pacific's stock today?**

It was a solid quarter overall for Canadian Pacific given the many headwinds facing the rail industry and the weak economic climate, but the results did fall short of expectations, so I think the weakness in its stock is warranted. With this being said, I think today's decline represents a great long-term buying opportunity for three reasons.

First, Canadian Pacific's stock now trades at just 14.6 times fiscal 2015's adjusted earnings per share of \$10.10 and only 12.9 times fiscal 2016's estimated earnings per share of \$11.36, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 26.9 and the industry average multiple of 19.3.

With the multiples above and its estimated 16.5% long-term earnings growth rate in mind, I think its stock should consistently trade at a fair multiple of at least 18, which would place its shares upwards of \$204 by the conclusion of fiscal 2016, representing upside of more than 38% from today's levels.

Second, Canadian Pacific has been actively repurchasing its shares, including 13.55 million shares for a total cost of approximately \$2.75 billion in fiscal 2015, and this activity has continued to play a primary role in its earnings-per-share growth. I think the company will accelerate repurchases in 2016 due to its severely depressed stock price, and this will make its remaining shares more valuable than ever.

Third, Canadian Pacific pays a quarterly dividend of \$0.35 per share, or \$1.40 per share annually, which gives its stock a 0.9% yield. A 0.9% yield is not high by any means, but the fact that the company pays a dividend and has been repurchasing its shares shows that it is fully dedicated to maximizing shareholder value, and I think its increased amount of free cash flow, including 59.3% year-over-year growth to a record \$1.16 billion in fiscal 2015, could allow it to increase returns to shareholders in 2016.

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

### **CATEGORY**

1. Investing

## TICKERS GLOBAL

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

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