



3 Reasons Why Canadian Pacific Railway Limited Is a Strong Buy

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) is the second-largest rail network operator in Canada with a 14,000 mile network across Canada and the United States. Its stock has taken a beating in 2016, falling about 10%. It now trades over 35% below its 52-week high of \$245.05 reached back in March 2015. I think its stock is oversold at this point and is a strong buy for three reasons, so let's take a closer look at these reasons to see if you agree.

1. Its record results in fiscal 2015 could support a much higher share price

On the morning of January 21 Canadian Pacific released record financial results for its fiscal year ended on December 31, 2015, and its stock has risen over 5% in the trading sessions since. Here's a summary of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 9.6% to a record \$1.63 billion
2. Adjusted earnings per share increased 18.8% to a record \$10.10
3. Total revenues increased 1.4% to a record \$6.71 billion
4. Freight revenues increased 1.4% to \$6.55 billion
5. Total carloads transported decreased 2.1% to 2.63 million
6. Freight revenue per carload increased 3.5% to \$2,493
7. Adjusted operating income increased 12.2% to \$2.62 billion
8. Adjusted operating ratio improved 370 basis points to a record 61%
9. Cash provided by operating activities increased 15.8% to \$2.46 billion
10. Free cash flow increased 59.3% to a record \$1.16 billion

2. Its stock is wildly undervalued

At today's levels, Canadian Pacific's stock trades at just 15.7 times fiscal 2015's adjusted earnings per share of \$10.10, only 14.1 times fiscal 2016's estimated earnings per share of \$11.25, and a mere 12.5 times fiscal 2017's estimated earnings per share of \$12.75, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 26.9 and the industry average multiple of 19.6.

With the multiples above and its estimated 15.2% long-term earnings growth rate in mind, I think the

company's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of \$202 by the conclusion of fiscal 2016 and upwards of \$229 by the conclusion of fiscal 2017, representing upside of over 27% and 43%, respectively, from current levels.

3. It has been actively repurchasing its shares

Canadian Pacific has been repurchasing its shares, including 10.48 million shares for a total cost of \$2.09 billion in fiscal 2014 and 13.55 million shares for a total cost of \$2.75 billion in fiscal 2015, and this has played a major role in its earnings-per-share growth.

I think its record free cash flow in fiscal 2015 will allow the company will accelerate repurchases in fiscal 2016, and this will show that its management team agrees that its stock is undervalued and that it is dedicated to maximizing shareholder value.

Is there a place for Canadian Pacific Railway in your portfolio?

I think Canadian Pacific Railway is a strong buy. All Foolish investors who agree should take a closer look and strongly consider beginning to scale in to long-term positions today.

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1. Investing

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1. Editor's Choice

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