Canadian Pacific Railway Limited Moves Past Failed Acquisition

Description

When a flurry of organizations and competitors (ranging from the U.S. Department of justice to Congress members and the U.S. Department of Defense) weighed in negatively on **Canadian Pacific Railway Limited's** (TSX:CP)(NYSE:CP) proposed purchase of **Norfolk Southern Corp.** (NYSE:NSC), the company realized last week that it would be best to pursue a different path.

Canadian Pacific appears to have done so with the release of first-quarter results.

Q1 results top expectations

The company announced results for the first quarter this week, and they are nothing short of impressive.

Canadian Pacific posted diluted earnings per share of $3.51 on revenues of $1.67 billion. Adjusted earnings per share came in at $2.50, representing an impressive 11% gain over the prior quarter and a significant improvement over the $2.41 and $1.6 billion, respectively, that analysts were expecting. Net profits rose by a very impressive 69%, topping $540 million.

Analysts and rail pundits have long taken an interest in the operating ratio of Canadian Pacific. Canadian Pacific has impressively brought this number down over the past two years to the point where the company is highly recognized as a very efficient operation. This ratio dropped again this quarter, coming in at a very impressive 58.9%. By comparison, some of Canadian Pacific's competitors have ratios as high up as +70%.

Despite these impressive results, revenues came in at 4% over than the prior quarter, which is largely attributed to the weakness in demand for certain commodities such as coal. In all, five types of cargo showed steep declines for the quarter, including crude oil, potash, and metals.

Just over half of Canadian Pacific's business comes from the U.S. market, and the strength in the greenback helped give a boost to earnings.

Shareholder value is back in focus

When the company first made an offer for Norfolk Southern, Canadian Pacific canceled a share-buyback program to help finance what would have been a $28 billion mega deal.

With the deal firmly off the table, Canadian Pacific has rightly moved on, restoring shareholder value by launching a new share-buyback program with up to seven million shares, or 5% of outstanding shares, being targeted.

Additionally, the company was swift in moving this week to increase the quarterly dividend by $0.15 to $.50 per quarter.

While the deal with Norfolk Southern was still being contemplated, the share price of Canadian Pacific fell nearly 20% in the past couple of months. With that deal now dead, the stock price has started to rise again.

Currently, Canadian Pacific is trading at $189.95 and is up approximately 9% in the past month with many analysts noting that the stock could go as high as $210.

In my opinion, Canadian Pacific represents a great option for those investors looking at long-term growth as well as some dividend income. If the company continues down the current path of increasing shareholder value and maintaining a highly diversified mix of cargo, investors should be pleased with the results.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. TSX:CP (Canadian Pacific Railway)

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Date
2025/08/01
Date Created

2016/04/20
Author
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