Canadian Pacific Railway Limited Earnings: 4 Key Things You Need to Know

Description

April is turning out to be an interesting month for investors of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP). The stock attracted investors' attention after the company's failed bid for **Norfolk Southern Corp.** earlier this month, but investors now have another solid reason to consider the stock: bumper first-quarter numbers topped with extra dividends.

Here are the top four highlights from the earnings report, and what they could mean for the stock going forward.

Revenue under pressure, but you needn't worry

Prices of key commodities may have bounced back in recent months, but that hasn't translated into higher spending activity in the industry yet. As a result, Canadian Pacific's freight revenue and total revenue was down 5% and 4%, respectively, in Q1, with a stronger U.S. dollar adding to its woes.

Nevertheless, a 4% drop isn't worrisome given the extremely weak conditions in key end markets like crude, coal, and potash. I don't foresee a major drop in Canadian Pacific's revenue going forward as automotive, intermodal, and Canadian grain markets remain strong. More importantly, Canadian Pacific's profits continue to grow despite challenges.

Lower expenses are boosting profits

Canadian Pacific's operating income grew 7% in Q1 despite declining revenue, primarily driven by lower fuel costs. The company is maintaining a solid operating margin of about 40%, which is at par with peer **Canadian National Railway's** margins.

Excluding a one-time gain of $181 million, Canadian Pacific's Q1 net income improved marginally by 2% year over year. But its adjusted earnings per share jumped 11% to $3.51 thanks to regular share repurchases that reduced the share count per dollar of profit. The good news is that Canadian Pacific re-iterated its full-year guidance of a double-digit growth in earnings per share.

Operating ratio hitting records

The operating ratio, which compares operating expenses to net sales, is a vital measure of efficiency for railroads. Q1 was a record for Canadian Pacific as lower expenses boosted its operating ratio by nearly four percentage points to 58.9%. That's no mean feat when you consider that rivals across the broader, like **CSX**, are still struggling with operating ratios above 70% despite operating in similar business conditions.

Investors can remain optimistic about Canadian Pacific's growth going forward as a lower ratio means greater ability of the company to sustain profits during periods of decelerating sales.

Shareholder returns growing

Now that the merger with Norfolk Southern on the back burner, Canadian Pacific lost no time in deciding to hand over part of the extra cash to shareholders. It increased its quarterly dividend by a whopping 43% to $0.50 per share while announcing a buyback program worth 5% of its outstanding share count. That's a double delight for investors as share repurchases should bump up Canadian Pacific's earnings per share even as they receive fatter dividend paycheques.

If there's one big takeaway from Canadian Pacific's earnings report, it's that shareholders can safely expect their returns to grow as the company's profits and dividends expand.

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