Canadian Pacific Railway Limited: Q2 Revenue Will Drop 12%

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) can't catch a break lately.

The company tried for months on end to acquire another competitor, only to have organization after organization speak up against the merger. And so the company moved on, continuing to focus on increasing revenue and adding value to shareholders.

The company was well on its way to achieve that until three unlikely factors came to fruition at once only just a few months ago.

The Canadian dollar, which had fallen to below US$.070 late last year and into this year, began to rally, most recently pushing forward to the US$0.80 level. Commodity prices, which have been weak for some time now, also regained some strength, but that didn't pan out as hoped. And the wildfires in the Fort McMurray region resulted in sharp cuts to outputs from the oil sands, which, by extension, led to reduced or even cut rail traffic.

Lower revenue expected for this quarter

The company announced this week that as result of those factors, revenues for the second quarter will be weaker than expected by roughly 12%.

Analysts had already reached a consensus that the results for Canadian Pacific would fall lower than expected as the entire railroad industry sorted out the temporary halt in services and prolonged weak demand for freight.

Canadian Pacific noted that it was now expecting to post earnings of nearly $2.00 per share. For the same quarter last year, the company posted $2.45 per share; analysts had been expecting the company to post $2.46 per share.

Year-end guidance and outlook remains unchanged

Despite the expected drop in revenue, Canadian Pacific also commented on the full-year guidance for the company, noting that cost-cutting measures both implemented and targeted as well as the potential of stronger demand in the remaining half of the year will help the company achieve the previously stated full-year guidance.

The operating ratio, which shows operating expenses as a percentage of revenue, is widely regarded as a gauge on the company's overall efficiency and performance. The lower the number, the better the performance.

During the first quarter of the year Canadian Pacific posted a record low of 58.9% operating ratio. The expectation for the upcoming quarter will see that figure slip to approximately 62%. By way of comparison, the second-quarter figure from last year was 60.9%.

What's next for Canadian Pacific?

News of the drop in revenue has the stock trading down. At the time of writing, the stock is down by over 2% for the day. When stock prices shift as they did for Canadian Pacific, the words of Warren Buffet come to mind: "Be fearful when others are greedy, and be greedy when others are fearful."

In other words, Canadian Pacific can be bought for a discount at the moment, so go ahead and be greedy. The stock price will recover, the trains will continue to move, and the company will continue to post earnings, albeit smaller earnings for this quarter.

In my opinion, while the reduction in revenue is worrying, it is not reason enough to dump the stock. The discount that the stock trades at now represents a unique opportunity for investors to buy into the stock, which–apart from this one hiccup–is a great stock that pays a handsome dividend.

CATEGORY

1. Investing

TICKERS GLOBAL

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Author
dafxentiou