



Is Canadian Pacific Railway Limited a Buy After Falling 23%?

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) is down 23% from a year ago. This majorly underperforms its close competitor **Canadian National Railway Company**, whose stock price essentially is unchanged compared with a year ago.

Reasons for the pullback

The 2% pullback on June 21 is because Canadian Pacific Railway is expecting its revenues to fall 12% in the second quarter. Lower revenues are due to softer demands in bulk commodity transportation, the fire in the Fort McMurray area, and a strengthening Canadian dollar.

However, the company believes that these are temporary factors. It also believes that cost-reduction opportunities and potentially stronger volumes in the second half of the year should still allow the company to deliver double-digit earnings per share (EPS) growth.

When Canadian Pacific Railway traded at \$230 per share in February 2015, it was priced at a price-to-earnings ratio (P/E) of over 26. However, its EPS growth was 19% in 2015. So arguably, the high multiple was warranted at the time.

Now that there are softer demands, EPS is expected to be lower than 19%, so Canadian Pacific Railway has been experiencing multiple contractions that have brought the shares lower.

Is Canadian Pacific Railway a good investment today?

Since investing is a forward-looking activity, we should determine whether or not Canadian Pacific Railway is a good investment today.

In fact, the pullback of 23% from a year ago is an opportunity to buy the top railroad at a lower price. You see, the railroads operate in an oligopoly, so there's limited competition. And the economy always requires the transportation of raw materials and products.

Canadian Pacific Railway's tracks connect Canada and the United States, linking eight major ports,

including Vancouver and Montreal, allowing customers to access key markets around the globe.

At \$159 per share, the railroad leader looks expensive, but based on its P/E of 15.2, it is priced at a decent value because EPS growth is expected to be 13% per year in the medium term.

For the last decade or so, Canadian Pacific Railway's normal multiple was 18.7. Based on that multiple, the company would trade at \$204 per share. Using a more conservative multiple of 17, the company would trade at \$186 per share.

So, the Canadian Pacific Railway is discounted by 14-22%, which is a decent entry point compared to when the company was trading at a multiple of 26 in early 2015.

Conclusion

At \$159 per share, Canadian Pacific Railway is priced at a decent discount of 14-22%. The company continues to believe that it can deliver double-digit EPS growth this year.

Couple that with multiple expansion in the future when the EPS growth rate increases again, investors with a long-term view can expect double-digit returns.

Let's not forget that the company offers a yield of almost 1.3%, which is better than the interest paid by putting your money in savings accounts. Plus, owning a piece of Canada's top railroad has the potential to grow your investment at a double-digit rate.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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