



Why Canadian Pacific Railway Limited Rose +5% in a Day

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) rose +5% on Wednesday after releasing its second-quarter results. It also announced the successor of CEO E. Hunter Harrison after he retires next year.

Second-quarter results

The second-quarter results actually weren't that bright. Compared with the second-quarter of 2015,

- revenues fell 12% to \$1.45 billion,
- operating income declined 15% to \$551 million,
- the operating ratio increased 1.1% to 62%,
- net income declined 16% to \$328 million,
- adjusted income decreased 23% to \$312 million,
- diluted earnings per share (EPS) declined 9% to \$2.15, and
- adjusted diluted EPS fell 16% to \$2.05.

The EPS decline was largely due to the decline in revenues, which were affected by lower-than-expected bulk volumes, devastating wildfires in northern Alberta, and a stronger Canadian dollar. Specifically, the actual revenues for crude, potash, and Canadian grains were much lower than the company's expectations.

The operating ratio compares the operating expense to net sales. The higher operating ratio indicates that Canadian Pacific was less efficient and less profitable this quarter to a function of revenue.

That said, the railway has improved its operating performance. It delivered faster service: the average network speed was 11% faster, and the average terminal dwell was 3% lower. It also increased its average train length and weight, and improved safety by reducing the injury rate and train-accident frequency.

Although the company had a rough quarter, it believes the worst is behind it and that there are solid bulk fundamentals for the second half of the year.

Management change

Harrison is scheduled to retire on July 1, 2017, at which time the current president and COO, Keith Creel, will become the CEO. Creel was the former vice president and COO of **Canadian National Railway** and has been Canadian Pacific's president and COO since February 2013. He has worked with Harrison for more than 20 years.

Harrison has this to say about Creel: "He is one of the strongest operating executives I have ever met in this business and I know he will do a fantastic job leading CP after my retirement. I look forward to supporting him as we continue to transition over the next year."

Canadian Pacific has reached an agreement with Harrison; after retirement he will continue to support the company in a consulting role for three years.

Conclusion

It seems the challenging quarter is behind Canadian Pacific. Furthermore, the company will remain in good hands after Harrison retires next year. As a result, the railway shares rallied +5% on Wednesday.

At roughly \$196 per share, Canadian Pacific trades at about 19.1 times earnings. Its annual EPS growth is expected to be about 13% in the medium term. So, the railway shares are fairly valued today with double-digit growth potential.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:CP (Canadian Pacific Railway)
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Date

2025/08/23

Date Created

2016/07/21

Author

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