# Canadian Pacific Railway Limited Falls Short of Expectations

## Description

This week **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) reported a third-quarter profit of $347 million. That equates to $2.34 per diluted share—up from $2.04 a year ago.

The company made sure to remind investors that the earnings number was higher than the third quarter of 2015, but the stock still fell given the results were below expectations. Analysts had expected a profit of $2.79 per share



The market has become increasingly cautious of Canadian Pacific stock. In August, legendary investor Bill Ackman sold his entire stake of 9.8 million shares worth around $1.5 billion. He had held shares since 2011. Soon after it was announced that executive VP and CFO Mark Erceg would step down immediately.

Should you be worried?

**Here are the numbers**

The biggest worry investors should have is the decline in sales. Canadian Pacific posted third-quarter revenue of $1.55 billion—down from $1.71 billion last year.

During the second quarter, total carloads fell by 6% compared with 2015 levels. This quarter they fell another 3%, with total freight revenue per carload dropping a steep 7%. It appears as if Canadian Pacific is losing both demand and pricing power.

A weak string of quarterly results has forced the company to lower its outlook for the year.

Canadian Pacific now expects 2016 adjusted earnings to rise at a slower rate (likely single digits), citing the delayed grain harvest, lower crude volumes, and persistent economic challenges compounded by a strengthening Canadian dollar. In January, it had predicted earnings growth of at least 10%. That target had been consistently reaffirmed until the most recent results.

**The easy money has already been made**

“Canadian Pacific has completed an incredible transformation since our initial investment in 2011,” Ackman said in a statement. “Hunter Harrison and Keith Creel have restored to greatness one of North America’s top railroads and have set the company on the path to continued success.” Analysts on *CNBC* called it “one of the greatest corporate turnarounds.”

There is no doubt that Canadian Pacific remains a blue-chip stock, but its days of rapid top-line, bottom-line, and margin growth are likely over.

For example, one of the biggest drivers of earnings growth in recent years has been ongoing cost reductions. The company reported that its adjusted operating ratio, a measure of productivity that compares expenses to sales, improved to its “lowest ever” 57.7%. Still, the rate of improvement has slowed dramatically.

With limited further room to reduce costs, the company will likely see earnings fluctuate more directly with macroeconomic conditions.

When you break it down, Canadian Pacific’s business doesn’t look that stable. A massive 42% of volumes come from bulk sources such as grain or coal with another 17% coming from metals, minerals, and crude oil. Prices in all of these commodities are down significantly in the past 24 months.

With farmers, miners, and oil producers all looking to slash costs, Canadian Pacific is losing its ability to charge outsized margins. The company fell short of expectations this quarter—that may become a trend.



**CATEGORY**

1. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

**Category**

1. Investing

**Tags**

1. Editor's Choice

**Date**
2025/08/26
**Date Created**

2016/10/19
**Author**
rvanzo