



Why Hunter Harrison Heading to Another Railroad Is Big News for Your Portfolio

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) announced that CEO Hunter Harrison will be leaving the company earlier than planned, and in doing so he will be forfeiting both vested and unvested equity awards, which are valued at \$118 million, he would have otherwise claimed.

Harrison led Canadian Pacific through a transition over the past five years; the railroad has progressed from being one of the least-efficient Class One railroads to one of the most efficient. With Harrison now set to depart, chief operating officer Keith Creel, who was selected by Harrison as his successor, will now assume the role of CEO.

Gone, but be back soon?

With Canadian Pacific on a much more stable track than where it was when Harrison assumed the CEO role, Harrison is now exploring opportunities at other Class One railroads that will no doubt benefit from his extensive turnaround experience.

Harrison approached the Canadian Pacific board to discuss the terms of his exit, specifically as it relates to him pursuing opportunities at other Class One railroads.

During his tenure at Canadian Pacific, Harrison attempted to forge a merger between Canadian Pacific and **Norfolk Southern Corp.** ([NYSE:NSC](#)). Opponents of the merger included the railroad industry, customers, politicians, and multiple regulatory bodies. During that same period, Harrison also explored merging with another Class one railroad — **CSX Corporation** ([NYSE:CSX](#)), but, ultimately, discussions between the two never materialized further.

Harrison's opportunity at another Class One railroad may, in fact, be CSX. According to some reports, Harrison has teamed with activist investors Paul Hilal to target CSX. Hilal once worked for another prominent investor, Bill Ackman, who was one of the key players that got Harrison into the CEO role at Canadian Pacific.

Some pundits even speculate that Harrison, once installed at another railroad may attempt to merge with Canadian Pacific, this time opting for a south-to-north attempt; Harrison is fully aware of the

different climate in U.S. regulatory bodies now.

For Canadian Pacific, it's business as usual. The company provided a quarterly update recently that showcased the strength and potential of the railroad over the long term, irrespective of Harrison's departure.

Quarterly results remain strong

Net income for the quarter came in at \$384 million — an increase over the \$319 million posted in the same quarter last year. Diluted earnings per share saw a significant jump of 25% in the most recent quarter, coming in at \$2.61 per share, beating the same quarter last year by \$0.52. Adjusted diluted earnings per share also saw a strong increase of 12%, bettering last year's \$2.72 per share and coming in at \$3.04.

A smaller workforce helped Canadian Pacific report lower expenses, with comp and benefits coming in at \$51 million lower for the quarter at \$282 million. Much of this can be attributed to both a smaller workforce and positive pension income.

Is Canadian Pacific still a good investment?

While Harrison's tenure may be over at Canadian Pacific, the work that he has done to make the railroad vastly more efficient will continue to pay dividends for the company for years to come.

The railroad industry as a whole remains a great opportunity for investors, primarily because it has one of the largest defensive moats in the market. For a new competitor to even consider rivaling any of the Class One railroads at this point is unthinkable, and, as witnessed by Harrison's previous attempts, a merger between multiple Class One railroads is equally (if not more so) unlikely to occur anytime soon.

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