Is Canadian Pacific Railway Limited Worth Considering?

Description

The stock of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) doesn't seem to be heading anywhere in a hurry. The company is now under the command of Keith Creel, who was ex-CEO Hunter Harrison's right-hand man for over 20 years. He's got the experience and the expertise to get Canadian Pacific back on track, but is the stock out of opportunities to boost profitability?

Harrison aggressively cut costs over the last few years, and this made Canadian Pacific an outstanding performer, but I don't think there's any room to do any more cutting without hurting the company's long-term prospects. Harrison wasn't supposed to leave Canadian Pacific as early as he did, but he did anyway and forfeited $118 million in benefits.

Activist investor Bill Ackman also liquidated his investment in the company, so the experts don't think Canadian Pacific has any gas in the tank. Ackman is known for jumping into beaten-up companies that haven't been living up to their full potential and assisting the management team to make a company the best it can be. When Ackman leaves a company, it's most likely because the company is fully valued and there's not much value left to be unlocked.

I think we've seen Canadian Pacific peak, as the company is no longer a high-flying growth play anymore and the valuation is correcting itself because of this.

I think the stock isn't going anywhere until a catalyst presents itself. Many pundits believe that Canadian Pacific needs to make an acquisition to thrive. It's definitely been a challenge for the management team to make an acquisition; each attempt to do so has failed.

Creel is going to need to find a way to make Canadian Pacific great again, and he probably won't be able to rely on the cost-cutting strategy that worked when Harrison was at the helm. There's no question that volumes are low because of a mixed Canadian economy, so the management team needs to find ways to improve operational efficiency in a sustainable way.

The stock currently trades at an 18.14 price-to-earnings multiple, which is lower than the company's five-year historical average multiple of 27.9. The stock seems cheap, but the price-to-book multiple is at 6.2, which is pricier than the company's five-year historical average as well as the industry average price-to-book multiples of 6.2 and 5.1, respectively.

The stock isn’t absurdly overvalued anymore, but I still think it could get cheaper from here.

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