All Aboard Canadian Pacific Railway Limited!

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) released its earnings on Thursday, beating earnings expectations while meeting expected revenue estimates. I'll dive into the most recent financial reports as well as the earnings call to provide insight into CP Rail's long-term prospects.

Earnings results

CP Rail reported earnings of $2.50 per share, beating analyst estimates of $2.47 per share for Q1 2017. A significant portion of the increased earnings over the first quarter of last year came from fuel surcharges, which came in at $53 million this past quarter — up from $26 million last year. The company reported revenues of $1.6 billion — up 4.7% from the same quarter last year.

This past quarter was the best quarter on record for CP Rail over the past five years, even considering the bumper crops Canada experienced in 2013 and 2014, making Q1 2017 a performance benchmark for the railroad for coming quarters. Management noted that many of the revenue and earnings drivers which led to positive results in the first quarter are expected to continue into Q2 2017, meaning investors should continue to expect outperformance from one of Canada's largest and most profitable railroads.

Interestingly, Canadian potash producers such as **Potash Corporation of Saskatchewan Inc.** are some of the railroad's biggest customers.

CP Rail made reference to the headwinds the potash industry is experiencing as a risk to the company's revenues moving forward in the earnings call Thursday; however, potash shipments have actually increased substantially since Q1 2016, and management noted that increased revenues from its grain customers and aforementioned increased fuel surcharge revenues have more than made up for the difference. Other segments such as coal and sulfur/fertilizer also declined during the period, but this decline was largely expected.

What does CP Rail's future look like?

The fact that a number of commodities-based sectors have seen dramatic declines in recent years has increased the volatility of shipments for most North American railroads. CP Rail has done a good job of diversifying its customer base and appears to be ready for sustained volatility in these sectors moving forward.

During the earnings call, management expressed uncertainty as to where specific sectors would be heading, but they noted that CP Rail is relatively flexible and agile as far as railroads go and would go to where demand materializes over time.

Bottom line

CP Rail is a well-run railroad with positive investor sentiment complementing strong revenue and earnings performance of late, resulting in a stock price appreciation of over 170% in the past five years. CP Rail is a solid defensive name (the railroads will generally continue to run regardless of what happens) with good diversification and free cash flow generation, making the valuation multiples, while high, make sense.

Stay Foolish, my friends.

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Date
2025/08/29
Date Created
2017/04/21
Author
chrismacdonald