Canadian Pacific Railway Limited: A Business With Staying Power

Description

Over the past year, shares of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) have been on a tear. Shares have increased by more than 25%, and shareholders don't seem to mind receiving a minuscule dividend of approximately 1%. In spite of shares being quite expensive, investors are still buying into an incredible business, spending close to $208 per share.

Before considering company financials, it is important to consider the type of business and footprint of the company. After laying down a railway that spans the entire country, the company owns an infrastructure that is impossible to duplicate under current conditions. With the ability to move goods at a low cost today and in the future, the company has a clear moat that will undoubtedly stand the test of time.

Although this company can be considered defensive, investors need to understand that high amounts of capital expenditures are needed on an annual basis to maintain normal operations. Operating a railway comes with a lot of responsibilities.

The company, which has consistently delivered revenues in excess of $6 billion for each of the past four years, has seen a decline as of late. Although revenues increased from $6,133 million in fiscal 2013 to $6,232 million in fiscal 2016, the top-line number has decreased from fiscal 2015. Things have slowed down in the past year.

The good news for investors is that in spite of stagnating revenues, the bottom line (earnings per share, or EPS) has still increased. Over the past four years, the compounded annual growth rate (CAGR) of the bottom line is nothing short of 14.69%. EPS increased from $6.84 in fiscal 2013 to $10.32 in fiscal 2016 with increases in each year. It is very clear than management has been very diligent in managing the operations throughout this period.

If we look at where the profits have gone, it becomes a little easier to understand why the company was able to increase EPS by such a large amount. For fiscal 2013, the denominator used to calculate EPS was a total of 175.4 million shares outstanding. Fast forward to the end of fiscal 2016, and the number was only 146.3 million. The total amount of shares outstanding decreased by close to

16.6% over a three-year period.

And if we take the first-quarter 2017 number into consideration, investors should not be disappointed. Revenues increased a small amount from the same quarter one year earlier, and earnings came in at $2.93 per share. Although this is a small decrease from the year prior, it is still a solid performance in a difficult environment.

Due to the decline in oil prices, the transportation industry has become a little more competitive. What used to be a clear price advantage for the railways is no longer obvious due to the lower cost of moving goods by truck.

Should the price of oil increase again, shareholders of Canadian Pacific Railway Limited may get the last laugh.

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