Canadian Pacific Railway Limited Beats Q2 Expectations: Buy Now?

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), the second-largest rail network operator in Canada, released better-than-expected second-quarter earnings results after the market closed on Wednesday. Let's take a closer look at the results and the fundamentals of its stock to determine if we should be long-term buyers today.

Breaking down the results

Here's a quick breakdown of 10 of the most notable statistics from Canadian Pacific's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Adjusted income	$407 million	$312 million	30.4%
Adjusted diluted earnings per share	$2.77	$2.05	35.1%
Freight revenues	$1.59 billion	$1.41 billion	13.7%
Non-freight revenues	$45 million	$44 million	2.3%
Total revenues	$1.64 billion	$1.45 billion	13.3%
Operating income	$679 million	$551 million	23.2%
Operating ratio	58.7%	62%	330 basis points
Free cash flow	$274 million	$190 million	44.2%
Carloads	663,600	614,000	8.1%
Freight revenue per carload	$2,409	$2,291	5.2%

What should you do now?

It was a fantastic quarter overall for Canadian Pacific, and the results surpassed the consensus expectations of analysts, which called for earnings per share of $2.72 on revenue of $1.62 billion. With this being said, I think the market will respond positively to these results by sending the stock higher over the next couple of weeks, and I think it represents an attractive investment opportunity for the long term for two primary reasons.

First, it’s attractively valued. As of the market close on Tuesday, Canadian Pacific’s stock trades at just 17.6 times fiscal 2017’s estimated earnings per share of $11.59 and only 15.6 times fiscal 2018’s estimated earnings per share of $13.01, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 27.1. The company is also expected to grow its earnings at an average rate of 12.6% over the long term, making it both a value and growth play.

Second, it has a safe dividend with room for growth. It currently pays a quarterly dividend of $0.5625 per share, equal to $2.25 per share annually, which gives it a yield of about 1.1%. The company raised its dividend by 12.5% back in May, putting it on pace for 2017 to mark the second consecutive year in which it has raised its annual dividend payment, and I think its very strong growth of free cash flow, including its 108.7% year-over-year increase to $361 million in the first six months of fiscal 2017, will allow this streak to continue in 2018 and beyond.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Canadian Pacific a core holding.

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