



## Canadian Pacific Railway Limited Reports Record Earnings

### Description

Some of the most overlooked investments are railroads. Often viewed as holdovers from the past century, few investors realize the significance that railroads play in a modern economy and how much of an opportunity they represent to investors.

One such railroad is **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)), which recently announced second-quarter results that handily beat forecasts.

### Impressive quarterly results

In the most recent quarter, Canadian Pacific reported net income of \$480 million, or \$3.27 per diluted share, representing a record-breaking 46% improvement over the same quarter last year. Revenues for the quarter came in at \$1.6 billion, bettering the same quarter last year by 13%.

Canadian Pacific noted that the substantial increases over the same quarter last year were predominately due to increased shipments across a wide variety of commodity freight, including chemicals, coal, energy products, grain, plastics, and potash. Grain shipments alone spiked over 20% in the quarter, accounting for \$363 million of revenue.

From an efficiency standpoint, Canadian Pacific registered a marked improvement in the operating ratio for the quarter, which came in at 58.7%. A lower ratio signifies more efficient operations.

Despite the marked improvement, Canadian Pacific stopped short of issuing a new guidance for the year, noting that dry weather in parts of Canada and the U.S. could take a toll on shipments in the third quarter.

### Is Canadian Pacific a good investment?

Railways are regarded as some of the most impressive investments available today thanks in part to the massive defensive moats that they command, as well as the critical role that they play in keeping the economy moving.

To put those two points into perspective, take a closer look at a passing freight train. While it is an awe-inspiring sight to watch a moving line of freight cars that's upwards of a kilometre in length, the shocking part is quantifying just how much freight is being moved and how far it has traveled.

Cities have been built around railroad tracks that crisscross the entire continent; they connect every major metro area and port through a series of intermodal terminals. Canadian Pacific has a sprawling network of thousands of kilometres of track that spans from coast to coast and through several U.S. states. This provides a nearly impenetrable moat for Canadian Pacific and other class one railroads against any new competition from popping up.

If a new competitor were to arise, the land acquisition and construction costs alone would be measured in the billions and require a decade or more of construction.

Mergers are unlikely, especially given the stringent criteria set forth by the Surface Transportation Board following a series of mergers between large railroads in the '90s.

In short, Canadian Pacific has a massive network that is critical the economy. Canadian Pacific isn't going to disappear, or have new competition, or get acquired anytime soon.

While Canadian Pacific may not be the largest railroad, the company has made a significant improvement over the past few years and remains, in my opinion, a great investment opportunity.

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1. Investing

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dafxentiou

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