



Time to Throw in the Towel at Canadian Pacific Railway Limited?

Description

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) has been the inferior Canadian railroad to own over the last few years. Shares have struggled to break through the \$200 level of resistance for over two years now, and many long-time shareholders are starting to give up on the railway as it continues rolling forward in the post-Hunter Harrison era.

CP Rail was a high flyer between 2012 and 2014 as Mr. Harrison cut costs across the board to make the company one of the best performers on the TSX. Bill Ackman was on board for the ride, but he's taken profits off the table now because it appears that the opportunity left when Mr. Harrison left the company.

Shares of CP still appear to be in correction territory as investors come to terms with lower expectations going forward. Keith Creel is the man at the helm now, and he's not going to pull a Mr. Harrison because there's really no more juice to squeeze out of the lemon when it comes to cost cutting. The real growth for CP Rail will be in the form of improving relationships with its customers. Mr. Creel has been expanding sales staff to retain and attract more clients.

Solid Q2 2017 results, but not enough to form a sustained rally past resistance levels

In the most recent quarter, CP Rail clocked in impressive results with \$1.64 billion in quarterly revenue and \$480 million in quarterly net income. The operating ratio also improved by 330 basis points to 58.7%, which means operational efficiency was marginally improved. The solid quarter can be attributed to strong volumes across various segments, and the management team's initiatives to keep costs low and overall efficiency high.

Just because Mr. Harrison isn't at CP Rail anymore doesn't mean that the improvements he made over the years left with him. The management team still values cost-control initiatives and investing to improve long-term operational efficiency. This is great news for shareholders, and it's definitely something to get excited about, but let's be realistic; the magnitude of improvements will probably never reach the levels that were realized when Mr. Harrison was on board.

Should you dump CP Rail?

If you're a growth investor with expectations that the stock will deliver returns like it did a few years ago, then you're going to be disappointed, and you should probably look elsewhere for growth.

CP Rail is still transitioning from a growth stock to a value stock, and if you're a value investor looking for a beaten-up name, then CP Rail is definitely a solid bet for the price you'll pay.

The Canadian dollar is strengthening, which is a headwind for CP Rail, but on the bright side, commodity prices are expected to improve from here, and that'll be a tailwind which may send shares of CP through its \$200 level of resistance sometime over the next year.

Stay smart. Stay hungry. Stay Foolish.

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Date

2025/07/08

Date Created

2017/09/01

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