Canadian Pacific Railway Limited Posts Strong Q3 Results, Raises Outlook: Buy Now?

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), Canada's second-largest rail network operator, announced its third-quarter earnings results and raised its full-year guidance after the market closed on Tuesday. Let's break down the company's results, its updated guidance, and the fundamentals of its stock to determine if we should be long-term buyers today.

A solid quarterly performance

Here's a quick breakdown of 10 of the most notable financial statistics from Canadian Pacific's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Freight revenues	$1,547 million	$1,510 million	2.5%
Non-freightrevenues	$48 million	$44 million	9.1%
Total revenues	$1,595 million	$1,554 million	2.6%
Adjusted net income	$422 million	$405 million	4.2%
Adjusted dilutedearnings per share(EPS)	$2.90	$2.73	6.2%
Operating income	$690 million	$657 million	5%
Operating ratio	56.7%	57.7%	100-basis-point improvement
Free cash flow	$214 million	315 million	(32.1%)
Carloads	666,400	648,200	2.8%
Freight revenue percarload	$2,321	$2,328	(0.3%)

Raised outlook? Yes, please!

In the press release, Canadian Pacific's CEO stated the following:

> "Thanks to the hard work of our CP family and a disciplined, balanced approach in the marketplace and to our operations, we were able to produce another quarter of exceptional results … Volume momentum grew over the course of the quarter, setting us up for a strong finish to the year. As a result, we are raising our 2017 guidance."

The company now expects double-digit percentage growth in adjusted diluted EPS from the $10.29 earned in 2016, which is up from its previous outlook that called for high single-digit percentage growth.

What should you do with Canadian Pacific's stock?

It was a fantastic quarter overall for Canadian Pacific, and its raised guidance is icing on the cake, so I think the market will respond by sending its stock higher in today's trading session.

Regardless of the price action in the stock today, I think it will move higher in the months and quarters ahead as it attracts buyers, because it trades at inexpensive valuations, including just 18.2 times fiscal 2017's estimated EPS of $11.52 and only 16.2 times fiscal 2018's estimated EPS of $12.95, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 26.9; these multiples are also very attractive given the company's earnings-growth rate, including its 12.5% growth in the first nine months of 2017, its projected 12.4% growth in 2018, and its projected 12.7% long-term earnings-growth rate.

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

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