Why Canadian Pacific Railway Limited Is up Over 1%

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP), Canada's second-largest rail network operator, announced its fourth-quarter earnings results after the market closed on Thursday, and its stock has responded by rising over 1% in early trading on Friday. Let's break down the quarterly results and the fundamentals of its stock to determine if we should be long-term buyers.

Finishing off 2017 with a strong fourth quarter

Here's a quick breakdown of 10 of the most notable statistics from Canadian Pacific's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	**Q4 2017**	**Q4 2016**	**Change**
Freight revenues	$1,667 million	$1,596 million	4.4%
Non-freight revenues	$46 million	$41 million	12.2%
Total revenues	$1,713 million	$1,637 million	4.6%
Adjusted net income	$469 million	$448 million	4.7%
Adjusted diluted earnings per share (EPS)	$3.22	$3.04	5.9%
Operating income	$753 million	$717 million	5.0%
Operating ratio	56.1%	56.2%	10 basis point improvement
Cash provided by operating activities	$733 million	$768 million	(4.6%)
Carloads	679,000	648,200	4.8%
Freight revenue per carload	$2,455	$2,462	(0.3%)

A strong outlook on fiscal 2018

In the press release, Canadian Pacific's president and CEO Keith Creel stated the following regarding the company's outlook on 2018:

"With a 2018 plan that balances strategic growth with continued productivity improvement, CP expects revenue growth in the mid-single digits and adjusted diluted EPS growth to be in the low double-digits … I have never been more excited about the potential for CP as we write the next chapter in our compelling story, one focused on sustainable, profitable growth."

I think it's safe to say that Mr. Creel is bullish on fiscal 2018.

What should you do now?

Canadian Pacific posted a stellar fourth-quarter performance, highlighted by its best-ever fourth-quarter revenues and operating ratio, and it capped off a great year for the rail network operator, in which its total revenues increased 5.2% to $6.55 billion, its adjusted operating ratio improved 40 basis points to a record 58.2%, and its adjusted diluted EPS increased 10.7% to $11.39 when compared with fiscal 2016.

With its very strong earnings results and its positive outlook on fiscal 2018 in mind, I think the market has responded correctly by sending Canadian Pacific's stock higher, and I think it represents a great long-term investment opportunity for two fundamental reasons in particular.

First, it trades at attractive valuations. Canadian Pacific's stock trades at just 20.2 times fiscal 2017's adjusted EPS of $11.39 and only 17.4 times the consensus EPS estimate of $13.23 for fiscal 2018, both of which are very inexpensive given its current earnings-growth rate and its estimated 13.6% long-term earnings-growth rate.

Second, it's a stealthy dividend-growth play. Canadian Pacific pays a quarterly dividend of $0.5625 per share, representing $2.25 per share annually, which gives it a yield of about 1%; a 1% yield is far from high, but it's very important to note that 2017 marked the second straight year in which the company has raised its annual dividend payment, and its 12.5% hike in May 2017 has it on track for 2018 to mark the third straight year with an increase.

With all of the information provided above in mind, I think all Foolish investors seeking exposure to the transportation industry should strongly consider beginning to scale in to long-term positions in Canadian Pacific today.

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