Canadian Pacific Railway Limited Disappoints in Q1: Why Now Might Be Time to Sell

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) released its first-quarter results on Wednesday, which saw the railway operator get off to a poor start to the year. While revenues of $1.66 billion were up a modest 3.7% from last year, rising expenses eroded a lot of that benefit, as the company's bottom line declined by nearly 20%. Per-share earnings of $2.41 were also well below analyst expectations of $2.64.

Company blames poor weather and high demand

CP Rail's CEO, Keith Creel, was quick to point out that the company " battled extreme weather and unprecedented demand" in Q1, which saddled the company with inefficiency and added costs to its financials. However, he was quick to point out the positives, and that CP Rail was looking to a strong Q2 as the company "built a tremendous amount of momentum through March — one of our best months in recent history — positioning us well for the rest of the year."

Canadian National Railway (TSX:CNR)(NYSE:CNI) has also seen spikes in demand over the past several months, and the company even announced it would be having a hiring spree in order to accommodate it.

Operating expenses up more than 12%

Last year, CP Rail was able to keep its expenses for the quarter just under $1 billion; however, that wasn't the case in Q1 as costs rose to over $1.1 billion. Fuel-related expenses saw the biggest increase from last year, rising 26%, while compensation and benefits also rose by 25% year over year. These spikes in cost resulted in the company's operating income declining by more than 10% this quarter.

Carloads up by 4%

Overall, CP Rail had a lot of activity in the quarter, as only a few of its segments were down year over year. Carloads transporting grain were down 8%, while automotive parts declined 6% in the quarter.

However, potash volumes rose by 19%, and energy, chemicals, and plastics also saw double-digit increases, as carloads were up 11% from a year ago.

Looming strike could further disrupt operations

On Wednesday, CP Rail was given strike notices by 3,400 workers that could be off the job within 72 hours. With the company still struggling with problematic weather, labour problems will only compound the issues the railway operator has faced this year, and that could make investors even more bearish.

Is the stock a buy?

CP Rail's share price has risen more than 11% in the past year, although it is down 1% to start the year, and these results will likely send the stock even further down in price. Railway stocks have been doing well as the economy has been strong in recent years; however, there are reasons why we could expect that to slow down as early as this year, and that could make it a bad time to buy.

The stock has not fallen victim to the big sell-offs that we've seen take place across many sectors this year, and that could make it due for a drop in price, especially with the stock trading at five times its book value.

Overall, CP Rail had a bit of a disappointing quarter, and while weather certainly played a big factor, there are other concerns that could impede upcoming quarters as well.

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