Canadian Pacific Railway Limited (TSX:CP) Averts Disaster: 2 Reasons to Watch the Stock in June

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) stock fell 0.75% on June 1. CP Rail managed to avert a prolonged battle with its workers after it came to an agreement on May 30 which brought more than 3,000 train operators back to work.

CP Rain CEO Keith Creel praised the deal and said that it would bring "long-term stability" to the railway. The Teamsters Canada Rail Conference (TCRC) praised Labour Minister Patty Hajdu and Prime Minister Justin Trudeau for their support for collective bargaining. In the hours before the strike announcement on May 29, the Trudeau government vowed to prevent a prolonged shutdown of CP Rail and take similar action that the Harper government did in 2012.

Should this piece of news drive investors back to CP Rail? Let's go over two reasons to watch CP Rail stock as we approach the summer.

Mixed first-quarter earnings

CP Rail released its first-quarter results on April 18. Revenue rose 4% year over year to $1.6 billion, and the operating ratio hit 67.5%. Operating expenses for fuel rose to $215 million compared to $170 million a year earlier with oil prices rising since Q1 2017. CP Rail also declared a dividend of $0.5625 per share, representing a modest 0.9% yield.

Net income dropped to $348 million, or $2.41 per share, compared to $431 million, or $2.93 per share, in the prior year. CP Rail attributed the dip in profit to bad weather and an unexpected rise in quarterly demand. Freight carloads exceeded the North American industry average by more than 2% and increased by more than 4% in Q1 2018.

In spite of the disappointment, CP Rail boosted its full-year forecast to adjusted earnings per share of $13 in 2018 and $14.50 in 2019. Shares have climbed 8% in 2018 so far and are up 16% year over year.

Another major development could also impact CP Rail going forward.

Canadian dollar taking a dive

Back in December 2017, I'd discussed the potential of downward pressure being placed on the Canadian dollar this year. The Bank of Canada surprised some with an early rate hike in January but has backed off in successive meetings, citing high Canadian debt and concerns over trade. The latter warning was prescient.

The Trump administration announced that it would move forward with steel and aluminum tariffs on Canada and other key allies. This announcement drove down the Canadian dollar to $0.77. The Canadian government responded with retaliatory tariffs, but many are holding out hope that this is a negotiating tactic rather than the beginnings of a prolonged and likely harmful trade war.

Renewed weakness for the Canadian dollar and also in oil markets ahead of a key OPEC meeting could be great news for CP Rail and other rail stocks, like **Canadian National Railway**. The schedule for future NAFTA talks remains uncertain, but a dovish Bank of Canada going forward seems likely in this current environment.

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