Canadian Pacific Railway Ltd. (TSX:CP): A Momentum Stock With Strong Fundamentals

Description

As pipeline capacity continues to be insufficient in Canada, Canadian railways are picking up the slack and it's translating very nicely to their bottom lines.

As such, continued Trans Mountain pipeline expansion delays are causing a problem for the energy sector, and this extra capacity from the railways is increasingly playing a role.

The expansion plan is huge, as it would triple the pipeline's capacity and ramatically increase oil tanker traffic. That's all good for business, but the problem lies in environmental threats, such as the threat this poses to whale species off the B.C. Coast, which have been overwhelmed by noise pollution in their habitat.

Rising outlooks, strong pricing, volumes, and operating ratios continue to characterize Canadian railways, but in recent times this trend is accelerating, thereby highlighting the value in these names.

Momentum, momentum, momentum …. With solid fundamentals.

Canadian National Railway Co. (TSX:CNR)(NYSE:CNR) can be expected to continue to outperform as the company continues to pick up the slack, and this increased demand can be expected to translate into higher pricing for the railway.

In the second quarter of 2018, pricing increased 4% compared to a 2.7% increase in the first quarter, and going forward we can expect this momentum to continue as the business remains strong across all commodities.

Canadian National stock has risen over 10% year-to-date, with a dividend yield of 1.58%, outperforming the TSX again.

Canadian Pacific Railway Ltd. (TSX:CP)(NYSE:CP)

Canadian Pacific is also feeling the sun, and with its pre-released third quarter showing the momentum in revenue, volumes, pricing, and operating ratio, the good times continue.

The company’s operating ratio is expected to be 55%, a fine result from the railway that has caught up to — and now bettered the operating ratio of CNR Rail. Yet CP stock is trading at lower multiples than CN Rail, so there might be opportunity here.

CP Rail stock has risen 18% year-to-date, with a dividend yield of 0.94%, also outperforming the TSX by a wide margin.

Recently, **Cenovus Inc**. (TSX:CVE)(NYSE:CVE), an energy stock that trades below book value despite a large resource base and good growth potential from its oil sands expansions, announced that it signed three-year deals with both CN Rail and CP Rail to transport 100,000 barrels per day from Northern Alberta to the U.S. Gulf Coast.

Oil producers expect crude by rail exports to be 325,000 bpd by the end of this year and to reach 500,000 barrels per day.

So there’s a lot of growth left here for the railways.

For another way to play the growth in the oil and gas industry — one that is reliable and predictable and that pays a hefty dividend — consider **TransCanada Corporation** (TSX:TRP)(NYSE:TRP)

For more than 65 years, TransCanada has been developing and maintaining energy infrastructure while handsomely rewarding shareholders.

Since 2000, TransCanada stock has provided shareholders with a 13% average annual return while delivering yearly dividend increases, which brought the dividend per share from $0.80 to $2.76.

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