Why You Can Buy and Hold Canadian Pacific Railway (TSX:CP) for Years to Come

Description

If you are looking for a company with a wide moat and solid growth prospects, look no further than **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). As one of the largest railway companies in North America, the company's route spans through the entire width of Canada and parts of the U.S. Long-term investors would be wise to consider investing in CP; let's consider why.

Competitive advantage

CP enjoys a strong competitive advantage for several reasons, and many of them have to do with the nature of the industry in which it operates. First, the railway sector is a hard one to break into. The barriers to entry include a large initial investment to acquire the infrastructure necessary to operate a railway company and high switching costs.

These economic characteristics (among others) make it almost impossible for new companies to do much by way of eating up the market share of already established corporations. That is why railway industries often develop into monopolies or duopolies. In Canada, CP shares most of the market with **Canadian National Railway**.

Second, railway companies transport goods such as cars and trucks, agricultural products, various chemicals and metals, etc., making them essential for the economy. Of course, there are other ways to transport goods, but railway companies offer cost and speed advantages and are less likely to incur losses due to accidents.

Third, well-established companies such as CP have long-term contracts with many of their customers. These contracts mean railway companies can rely on stable and consistent earnings and often perform better than most, even when the economy slows down.

Growth

Canadian Pacific is not merely existing and passively taking advantage of its standing in the railway industry. The company is constantly improving its standing. Notice, for instance, CP's insistence on improving efficiency. The company has allocated a lot of money into efforts to modernize trains and locomotives, as its partnership with **General Motors** shows.

CP has increased its average train speed, average train weight, and average train length by 23%, 16%, and 10%, respectively, over the past five years. The company has also decreased its average terminal dwell by 7%.

In short, CP is managing to transport more products in less time, which translates into greater profits. Over the past five years, CP's net income increased by almost 40%. Constant increases in earnings is always a good sign, particularly when paired with greater efficiency.

The bottom line

The economic and geopolitical landscapes, which are currently sketchy, are key factors for CP. But in the long run, the company has more than enough arguments to survive the ups and downs of the market. With a large market share, a strong competitive advantage, and solid growth prospects, CP promises to be a top stock to buy and hold for years to come.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/06/30
Date Created
2018/12/27
Author
pbakiny