CP Rail (TSX:CP): A Top Stock for Your RRSP

Description

It's Registered Retirement Savings Plan (RRSP) top-up season once again. Investors are looking for stable, reliable investments that will be the backbone of their portfolios come retirement. On Wednesday, **Canadian Pacific Rail** (TSX:CP)(NYSE:CP) released fourth-quarter and year-end results. It once again proved why it is a top pick for your RRSP.

Canadian Pacific fourth-quarter earnings

CP Rail posted blowout fourth-quarter earnings. For those who think that railways are a slow-growth story, think again. Adjusted earnings per share of $4.55 beat by $0.23 and revenue of $2 billion topped estimates by $20 million. Year over year, it represented growth of 41% and 17% respectively. Double-digit growth from safe and reliable blue-chip companies is tough to come by.

Its focus on improving logistics led to a record-low operational ratio, which improved by 370 basis points to 56.5%. By the same token, operating income jumped 28% to $874 million. There wasn't anything not to like about the company's fourth-quarter results.

In the quarter, freight revenue increased by 18% with a significant increase in energy, chemicals, and plastics (46%) and potash (24%). The growth in the energy segment is not surprising, as oil producers have been forced to ship more oil by rail. Until the pipeline capacity issue is resolved, CP Rail will continue to benefit.

For the year, it saw double-digit growth in revenue (12%), earnings per share (27%), operating income (12%), and operating cash flow (24%).

Top blue-chip stock for growth

Another bit of positive news was that the company announced 2019 guidance. Adjusted earnings per share are expected to grow by double digits on the back of mid-single-digit volume growth. The company intends to spend $1.6 billion in capital expenditures. Of note, guidance can be impacted by negative currency rates and a higher-than-expected interest rate.

This is in line with analysts who are estimating 20% earnings growth and 9% revenue growth on average through 2020.

The company is also becoming a legitimate income play. Although CP Rail's current yield of 0.99% isn't attractive, it is growing the dividend at a double-digit pace. Over the past three years, it has almost doubled its dividend with a compound annual growth rate of almost 30%. With a payout ratio in the mid-teens, investors can expect this pace of dividend growth to continue. It also has a significant share-buyback plan, which is a boon to the company's shareholders.

Foolish takeaway

CP Rail has been as reliable as it gets. It has not missed earnings estimates since the fourth quarter of 2016. On top of that, it beat estimates in 11 of those 12 quarters. Over the same time frame, it only missed on revenue once and beat estimates on 10 occasions. CP Rail is a top pick for your RRSP portfolio.

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