Should You Buy Canadian Pacific Railway (TSX:CP) Ahead of its Earnings Report?

Description

There aren't many opportunities out there for investment ahead of a potential recession. Retail, banks, even marijuana all could get hit if the Canadian dollar drops.

But that doesn't mean there aren't *any* opportunities.

Canadian Pacific Railway (TSX:CP)(NYSE:CP) will be reporting its latest earnings on Apr. 23. That's only a few weeks away. The railway industry is one of those few industries that could be relatively safe even during a recession. So, let's take a look at CP and see whether this stock deserves your dollars.

Steady as a train

For a company that's been around for more than a hundred years, this stock has grown steadily over that time. It trades at $273.58 at the time of writing this article, and that's as high as it's been since only November 2018 when it reached the $280s.

That steady growth in shares is due to its steady growth in earnings, which comes from just plain, old, steady growth in operations. CP increased its adjusted earnings by 41% in its most recent quarter, with revenue beating analyst estimates of $1.94 billion and instead reporting revenue of $2.01 billion for the quarter.

Changing things up

Back in 2013, CP started its process of changing up the way the company was run. For CEO Hunter Harrison closed three terminals and four hump yards, sold nonessential rail lines, replaced most of the leadership team, moved headquarters to cut costs, cut the workforce almost in half from 19,500 to 11,700, cut locomotives, and thousands of leased cars.

With so many cuts, investors were thrilled. The stock started off 2013 around $115 and by 2014 shares had gone up $100. Now, Harrison may be gone, but the new CEO was his COO for 20 years, Keith Creel.

Creel continues his mentor's process of streamlining operations and creating a precision railroading experience. However, it's also been several years, so CP is now looking to expand beyond the cut phase and move into the growth phase. This will likely be mainly through its intermodal business that aims to compete against truck shipping.

Can't compete

Speaking of competition, that's another place where investors have faith in CP. CP holds a monopoly on railroad shipping, shared only with **Canadian National Railway**. If another company wanted to just come along and start hauling cargo across Canada, it would have to invest literally billions of dollars just to get started. That leaves CP with a wide moat in which to operate.

And it's not just in Canada either. CP operates throughout North America, shipping grain, lumber, coal, cars — you name it. Soon enough, prices on goods go up, and that means increased rates for CP as well.

Bottom line

I'll be the first to admit this is an expensive stock, but I'm also the first to say it's worth the price. Even if a recession hits, it's not that likely the stock will go down by much. And honestly, this is a long-term investment that you really should have in your portfolio. I'll show you why.

If you're looking to retire in, say, 15 years, then let's look at the historical data from 15 years ago if you had invested with CP. The stock was trading at about $30 per share.

Now, as I've mentioned, shares have reached $274.61. That's an increase of 815%! If you had invested $10,000, you'd now have $91,445! That's not a bad retirement nest egg.

So, while the price might be high, I don't expect Apr. 23 to release anything negative in the company's future. It's probably best to buy before the stock gets even further out of reach.

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Date
2025/08/28
Date Created
2019/04/07
Author
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