Canadian Pacific Railway (TSX:CP): A Solid Company for the Prudent Investor

Description

While there are a variety of investment methods and preferences, some companies are so valuable that investors of different schools tend to gravitate toward them. I believe **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) is one such company. Let's consider what makes Canadian Pacific such an attractive investment option.

A strong competitive advantage

Canadian Pacific — one of the largest railway companies in Canada — transports goods worth billions of dollars every year. There are, of course, other ways to transport goods: boats, trucks, and planes are all alternative means of transportation. However, railway companies have several advantages over their competitors.

The most obvious advantage of using trains to transport goods is cost-efficiency. Corporations that need their assets shipped from one part of the country to another will look to minimize costs as much as possible, and employing railway firms is often the best way to do that, as trains are fuel efficient in comparison to most other methods of transportation.

Plane travel is expensive, and most firms resort to that only if they absolutely have to. Trucks carry less goods than planes and are more likely to run into severe traffic or have accidents. Thus, railway firms benefit from high switching costs.

As one of the largest of its kind in North America, Canadian Pacific also benefits from contracts and agreements it holds with many of its clients, ensuring a steady stream of business for many years.

For all these reasons (and more), it appears likely that the Calgary-based freight train company is here to stay. The firm holds a commanding portion of the domestic market share in an essential sector of the economy.

Long–term capital appreciation

Since 2010, CP Rail's share value has increased significantly. The firm has managed to deliver a compound annual growth rate of about 20% over this period. This growth was spurred by increases in revenues and earnings, but also by a conscientious effort on the company's part to increase its margins.

Canadian Pacific's revenue and earnings estimate are trending upward for the current fiscal year (compared to last year). The firm's share price will likely continue on its upward trajectory, though it is bound to slow down at some point. Canadian Pacific's strong moat ensures many years of continuous growth.

Dividends

Don't be fooled by CP Rail's dividend yield of 1.08%. The firm pays a competitive payout, and with a payout ratio just under 20%, CP Rail can afford to increase its quarterly payout for many years. The company has done just that recently, with its dividends increasing by about 162% over the past ten years, which averages out to a 16% annual increase.

The bottom line

Why should you buy Canadian Pacific? The firm possesses a strong moat, and is showing increasing revenues, profits and margins, and offers a strong dividend payout coupled with the ability to continuously grow dividends (as evidenced by its low payout ratio). These factors make Canadian Pacific an excellent buy for prudent investors.

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Date

2025/10/01
Date Created
2019/05/25
Author
pbakiny