Should You Buy CP Rail (TSX:CP) Stock Ahead of Earnings?

Description

Canadian Pacific Railway (TSX:CP)(NYSE:CP) is scheduled to release its second-quarter earnings results on July 16. The stock has been one of the high performers on the TSX over the past year, climbing to over $300 a share recently. However, investors may be wondering if it's too late to buy CP and if there's still more room for the stock to rise in value. I'll have a look at how the stock has done in prior earnings, what factors might impact it in Q2, and its overall valuation.

How CP has done in the past

What might come as a surprise to investors is that despite the stock's strong performance over the past year, CP has missed earnings expectations in three of its past four quarters. The biggest decline that CP stock went on had nothing to do with earnings at all — it was a result of a much broader sell-off in the markets that occurred in Q4 of 2018.

What this suggests is that unless CP has a disastrous earnings report, there might not be that much risk of owning the stock heading into earnings.

Factors impacting the upcoming quarter

One reason that the stock might be a great buy heading into earnings is that CP recently announced that 2018-2019 has been a record crop year. According to Joan Hardy, the VP of sales and marketing, "Since August of last year, we have moved approximately 500,000 metric tonnes more grain than ever before, bettering our record at this time back in the 2015-2016 crop year."

That's certainly a very good sign for sales and could make for a strong quarter. However, CP transports much more than grain, and how the other segments do will be important as well. Although the economy has been doing well, concerns surrounding trade wars and tariffs have had an impact on businesses, and that may translate into fewer products and materials being transported by CP Rail.

In its most recent quarter, the company saw $10 million less in freight revenues from metals, minerals, and consumer products. However, that was more than offset by grain revenues, which were up by $23 million. Energy, chemicals, and plastics added the most, with $58 million more in revenue in Q1 than in the prior year and could be pivotal in whether Q2 impresses investors this time around.

Is the stock too expensive?

CP has definitely increased significantly in value over the past year, but heading into July, even though it was near its 52-week high, the stock was trading at only 21 times its earnings. Although a multiple of six times book value is a bit pricey, the growth that the company has achieved might make that easier for investors to accept. And with a very strong dividend to add on top of that, it could prove to be well worth it.

Bottom line

There's nothing alarming about the stock today that suggests it could see a big decline in value on earnings day. As good as it has done, there's definitely room for the stock to rise higher from where it is, and it might not be unreasonable for it to trade at a higher multiple given the growth it has achieved. Whether you're looking for a good dividend or solid growth opportunity, CP Rail could be a strong addition to your portfolio.

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