Is CP Rail Stock (TSX:CP) a Buy After its Impressive Q2 Results?

Description

Canadian Pacific Railway Ltd (TSX:CP)(NYSE:CP) released its quarterly earnings earlier this week. The company had a record performance, with sales reaching $1.98 billion, up 13% from a year ago. Profits of $724 million were also very impressive and up more than 66% from last year.

However, let's take a closer look at what was behind the strong results and whether CP Rail is a good buy today.

Revenues up among all major segments

CP Rail saw improvements all across its operations with grain-related sales up 13%, potash revenue increasing 17%, and energy, chemicals and plastics improving by more than 24%.

The railway operator saw not only an increase in the number of carloads during the quarter, but the revenue per carload was up as well.

It's a good sign that the economy is still doing well, as these are very strong numbers all around for CP, suggesting that industries are moving a lot of product and materials across the country.

The company's CEO, Keith Creel, said it was the "best-ever second-quarter performance from a workload perspective, as measured by Gross Ton-Miles."

Costs show minimal increase despite significant sales growth

Operating expenses for the quarter of $1.16 billion were only slightly up from the $1.12 billion that CP Rail incurred last year. The key reason was that purchased services and other expenses fell by $19 million, or 6.7%.

Excluding that line item, other operating expenses of $890 million were up 6% year over year. However, that's a modest increase in costs compared to the impressive sales growth that CP Rail achieved this past quarter.

It’s a very good sign, as it shows that a lot of incremental revenue is making its way to the company’s bottom line.

Foreign exchange gives the bottom line a boost

During the quarter, CP Rail recorded other income of $40 million, which was mainly a result of a $37 million gain on foreign exchange related to debt and lease liabilities. A year ago, the company incurred a cost of $44 million and a total of $52 million in other expenses. That becomes a favourable swing of $92 million this quarter as CP Rail went from a loss to a gain.

However, even without the other income to add to CP Rail’s profits, the company still would have had a very good quarter, as operating income was up over 31% from last year.

Why CP is a good long-term investment

Investing in CP Rail is a good way to bet on the success of the economy, as it means more items will be shipped on its railways. The CEO also believes the company is very versatile as well, stating in the earnings release that “As has been proven time and again, our operating model can perform well in all economic conditions and we will remain disciplined in controlling our costs and doing what we said we would do.”

That’s what investors want to hear, particularly when it comes to controlling costs. The stock has indeed proven to be a very stable long-term investment, with its share price rising around 600% over the past 10 years.

And with a modest and growing dividend on top of that, CP Rail could be an ideal stock for those looking to buy and hold for a long time.

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