TFSA Investors: Canada's Best Stock Is Trading at Half-Price

Description

Canadian Pacific Railway (TSX:CP)(NYSE:CP) manages a transcontinental freight railway in Canada and the United States. The company transports bulk commodities, merchandise freight, and intermodal traffic. The company operates a network of approximately 13,000 miles and serves business centres in Canada and the United States. Canadian Pacific Railway Limited was incorporated over 130 years ago and is headquartered in Calgary.

The company has a price-to-earnings ratio of 18.89, a price-to-book ratio of 5.95, and market capitalization of $42.83 billion. Leverage is higher at Canadian Pacific than the company's railroad peers, as evidenced by a higher than usual debt-to-equity ratio of 1.29. The company has excellent performance metrics with an operating margin of 45.27% and a return on equity of 32.36%.

The company's long-term strategy is to utilize precision railroading to leverage the company's lower cost base, network strengths, and provide improved service to drive sustainable, profitable growth. The company aspires to become North America's most efficient railroad with the lowest operating ratio.

In 2018, Canadian Pacific was an aggressive re-purchaser of shares after announcing a normal course issuer bid to purchase 5.68 million common shares for cancellation.

The company has faced regular labour disruptions — in 2018, Canadian Pacific received a 72-hour strike notice from the Teamsters Canada Rail Conference – Train & Engine (TCRC), representing approximately 3,000 conductors and locomotive engineers, and the International Brotherhood of Electrical Workers (IBEW), representing approximately 360 signal maintainers, of their respective plans to strike.

At that time, Canadian Pacific commenced work stoppage contingency plan and ensured a smooth, efficient, and safe
wind-down of operations. Keith Creel, Canadian Pacific's CEO and one of the best railroad operators in North America, tactfully led successful negotiations with the union. On April 20, 2018, Canadian Pacific reached an agreement with the unions and rail operations resumed.

In the most recent quarter, Canadian Pacific said the company's operating ratio, a closely watched productivity metric that measures expenses as a percentage of revenue, fell 2.2% to a record low of 56.1% Q3 2019. This is a phenomenal result that demonstrates the improvement in company operations. The lower the ratio, the more efficient a railroad. Canadian Pacific had an operating ratio of +80% in 2011 and, at the time, was North America's worst-run railroad.

Canadian Pacific is Canada's second-largest railroad operator after rival **Canadian National Railway**. The company is also focused on improving efficiency by lowering the average fuel price, which fell 10% to $2.41 per gallon in the third quarter, leading to a 7.1% fall in fuel expenses.

Canadian Pacific's diverse revenue sources in another huge advantage in comparison to other railroad carriers. In Q3 2019, revenue in the energy, chemicals, and plastics segment, which also contains crude-by-rail shipments, rose 13% to $382 million in the quarter.

Canadian Pacific is an iconic Canadian company with a rich legacy. The company has made huge progress over the last nine years under the leadership of the late Hunter Harrison, who was succeeded by his protégé Keith Creel. Canadian Pacific looks set to continue to outperform the Canadian stock market index over the next several years and appears to be a great buy at current prices.

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