Is Canadian Pacific Railway a Good Stock to Buy?

**Description**

Canadian railways are robust businesses well able to weather damaging market forces. But while the attention falls mainly on **CN Rail**, let's today shine the spotlight instead on **Canadian Pacific Railway** ( TSX:CP)(NYSE:CP).



Investors new to railway stocks may have noted that, just like the Canadian economy itself, the big freighters had a particularly nasty second quarter. However, CP had a few positives in its Q2.

## A solid stock for 2020's second half

CP posted a total revenue loss of 9%, while operating income was down by 6%. Across the board, demand has clearly been stultified by the pandemic. However, CEO Keith Creel is confident that adjusted diluted EPS growth will be positive for the year. In CP's Q2 earnings report, Creel hit the nail on the head: "While economic uncertainty remains, we're controlling what we can control — our costs."

Creel went on to point out where CP's strengths lay during the pandemic: "Our strong bulk franchise, which included record movements for Canadian grain and potash in the first half of the year, helped to offset some of the declines we experienced in other lines of business."

In other words, if you've been investing in consumer staples, you (just like CP) were on the right track. But there are a few more reasons that explain how CP has been able to stay on the straight and narrow. A lot of CP's resilience comes from its efficiency. CP operates on a precision scheduled railroading (PSR) model, which means that it can rein in costs while shipping exact volumes for the environment.

In fact, CP's operating ratio actually improved for the quarter. This key metric fell to 57% for the quarter from 2019's 58.4% as overheads were brought down. So bullish is CP on the future that it boosted its quarterly dividend by 15% and restarted its share-repurchase program. The rail network operator has also plastered over its March dip with share price appreciation positive by 18.5% year on year.

## A defensive pick for the long term

All of this puts CP in a strong position for the year going forward. It also makes its stock look suddenly more attractive compared to that *other* rail operator, CN Rail. So, while headlines might latch on to profit loss at CP, would-be shareholders may want to consider the circumstances. Given the extreme uncertainty in the economy, CP has pulled off a surprisingly resilient Q2.

Long-term investors have a lot to weigh. But the deciding factor might rest not with short-term profits and costs. Instead, investors should focus on CP's defensive status in terms of sales. Let's go back to those agri shipments. It's illuminating to see that CP shifted greater loads of grain, potash, and fertilizer during 2020's abysmal Q2.

It's been said before that Canada's rail network is representative of our economy. But this chapter in our history has shown just how correlated the two really are. The take-home message is that CP investors get much more than just a freight business in their portfolios. They get a play on our strongest suits as a nation.

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