CP (TSX:CP) Stock Falls Short of Earnings Expectations

Description

Canadian Pacific Railway (TSX:CP)(NYSE:CP) had a lot to prove during its third-quarter earnings report this week. CP stock was already dealing with supply chain issues, and now it has a massive debt load to take on. This comes from the recent approval to acquire **Kansas City Southern** after the company won a long, drawn-out battle.

What happened?

CP stock came in under analyst expectations for the quarter, blaming supply chain challenges. Analysts expected $1.96 billion in revenue, with CP stock coming in at $1.94 billion. Earnings per share also came in much lower at $0.70, below the expected $0.94.

Despite this, CP stock still saw improvement from last year, but the KCS acquisition and related costs will surely weigh on the stock both now and in the future. Due to this, CP stock believes growth in revenue per tonne-miles will be in the low single-digit range for 2021 compared to 2020. However, management "remains confident" it will achieve full-year double-digit adjusted diluted EPS growth.

"Despite global supply chain issues and a challenging Canadian grain crop, we remain confident in our ability to deliver full-year double-digit adjusted diluted EPS growth," said CEO Keith Creel. "The underlying demand environment remains strong, and our commitment to generate sustainable, profitable growth will not be distracted by elements outside our control."

Creel went on to say the KCS deal will help CP stock grow into the next stage of development as North America's largest rail line.

So what?

Clearly, the KCS deal is going to weigh heavily on CP stock in the years to come. Short-term investors may not do too well from this stock. And already the company is coming in under analyst expectations, who clearly took in supply-chain issues before coming up with EPS numbers.

The problem is, when are these supply-chain issues going to disappear? It doesn't look like anytime soon. And with winter on the way, that could mean even less revenue for CP stock in the months to come.

Now the company is loaded with long-term debt and stuck without the revenue to start paying it out.

Now what?

In the days ahead, I'm sure analysts will weigh in about what they feel investors should do with CP stock. But for now, it's likely a hold. While long-term investors are sure to feel the results of the KCS deal in a positive light, short-term investors aren't going to see shares soar overnight.

Instead, it might be a good time to wait for a downturn if you're looking to invest long term in CP stock. And frankly, after this report, that's likely to happen soon.

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alegatewolfe