



CP Rail Stock: Bill Ackman Is Buying; Why You Should, Too

Description

When billionaire legend and activist investor Bill Ackman makes a move, investors tend to get excited. This time should be no different, with the man loading up on around US\$1.8 billion worth of **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) stock. Indeed, Ackman is very familiar with the business. He did help reinvigorate it a few years back, hunting down the railway legend we all know as Hunter Harrison. The struggling railway took off under the leadership of Harrison and even though he is no longer at the helm, CP has not looked back.

It's built upon its strengths and in a big way. With the acquisition of Kansas City Southern on the books, CP Rail is pretty much the envy of the industry, given its cross-border exposure. Indeed, Ackman's buying the shares comes at a questionable time, when the stock is at or around its all-time highs, while a big chunk of the broader market is in bear market territory or worse. Ackman acknowledged some regret in dumping CP Rail a few years back. His return, I believe, is a true testament to the type of growth that CP could be in for next. It's also a vote of confidence to management led by its CEO Keith Creel, a man who will be very busy integrating the new assets from its KSU acquisition.

Could it be that Ackman bought because he likes what he sees from CP's big acquisition?

We'll never know for sure why Ackman has bought now. Regardless, I do think that the big deal got Ackman's attention, and he clearly likes today's valuations. Personally, the 23.64 times trailing earnings price tag isn't a standout. I don't think it's a deep value by any stretch of the imagination. That said, I don't think it's expensive, given the potential for the firm to really flex its muscles once the economy is ready to move on from its current crises. The COVID crisis will end, as too will the Ukraine-Russia war. Once it does, a sizeable [recovery](#) could ensue, and that could bode well for a firm like CP, which was doubted for its pursuit of KSU.

While pricey, I think the KSU deal could take CP Rail to the next level. With Ackman buying shares, I'd be that much more bullish if he put his activist cap on in an attempt to bring CP Rail to even higher

highs.

CP is a wonderful business

CP Rail is a wonderful company with boring, predictable earnings growth. Bill Ackman loves these types of companies. The firm may have some debt on the balance sheet, but ample cash flow generation should chip away at that over the coming years. As cross-border freight picks up, I do think that Ackman will be profoundly rewarded for his return on investment in the Canadian rail giant. At nearly \$100 per share, I'd wait for CP to fall back down to more attractive levels before following Ackman in. If you're keen, though, I'm certainly not against buying here at just south of \$100. Ackman is a long-term thinker, and I think his return to CP spells only [good](#) things for the firm's future.

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