Canadian Pacific Railway (TSX:CP): A Top Wide-Moat Stock to Buy and Hold Forever

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good, undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, wide economic moats, solid financial ratios, and good management.

Canadian Pacific Railway

My beginner stock pick today is **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). CP has a network of 13,000 route miles of track spanning Canada and the United States and has been in operation since 1881. These railways are the artery system of our economy and are absolutely vital.

Canada's supply chains depend on CP's ability to move goods cheaply and efficiently across the country. As a result of this dependency, CP enjoys a strong wide economic moat, with little fear of disruption. It operates in a virtual duopoly with just one other major competitor.

As a result, CP enjoys a very strong operating margin of 44.75% and profit margin of 36.07%, with return on equity of 13.57% and return on assets of 4.80%. These are excellent financial ratios that point to the strength of CP's operations and management.

Share buybacks, stock splits, and other corporate actions that reward investors have long been a mainstay for CP. The company has paid out and increased dividends for over 25 consecutive years (Dividend Aristocrat

) and has beaten the market since going public.

Valuation

CP is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, CP is extending gains since Monday and is trading at $90.38, which is near the 52-week low of $82.12. In the current fiscal quarter, CP's 52-week high is $105.46. This is useful to know, because it gives us a sense of where the bottom of the price range may be if there is a correction.

CP currently has a market cap of $84.02 billion, which places it among the top 10 largest stocks listed on the TSX. From this, we can calculate an enterprise value of $103.07 billion, with an enterprise value-to-EBITDA ratio of 21.40, which is similar to sector peers.

For the past 12 months, the price-to-earnings ratio of CP was 22.96, with a price-to-free cash flow ratio of 37.02, price-to-book ratio of 2.46, price-to-sales ratio of 8.54, and book value per share of approximately $36.56. Based on these figures, CP's current share price appears to be slightly overvalued.

CP is currently covered by a total of 23 equity analysts. Of them, 18 have issued a “buy” rating, zero have issued a “sell” rating, and five have issued a “hold” rating. Having a majority of equity analysts issue “buy” ratings is generally a bullish sign, as it indicates strong institutional interest.

CP had a Graham number of $50.12 for the last 12 months; a Graham number is a measure of a stock's upper limit intrinsic value based. Generally, if the stock price is below its Graham number, it is considered to be undervalued and potentially worth investing in. In this case, CP does not appear to be undervalued.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position in CP if they have the capital. Over the next 10-20 years, your entry price won't matter as much if CP continues its strong track record of growth and profitability. Consistently buying shares of CP, especially if the market corrects, can be a great way to lock in a low cost basis.

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