Canadian Pacific (TSX:CP): A Hidden Growth Stock to Buy Today

Description

The **S&P/TSX Composite Index** is down by 15.29% from its 52-week high at writing. The volatility plaguing the TSX this year has prompted many investors to take their money out of the markets to invest in safe-haven assets. Stock market investing is inherently risky, and investing in growth stocks entails a greater degree of capital risk.

The selloff in the broader market shows how investors have reacted to the volatility. However, savvier investors wait for market downturns, because it is an opportunity for them to pick up some of the strongest stocks out there for substantial discounts. **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) is one such stock that you could consider adding to your portfolio.

Today, I will discuss this hidden growth stock that has delivered over five-fold returns in the last decade to help you determine whether it has a place in your self-directed investment portfolio.

How is this railway stock doing?

Inflation has impacted stock markets worldwide, and publicly traded companies across all sectors of the Canadian economy are struggling with it. With expenses soaring for every company, it was only natural for analysts to downgrade Canadian Pacific Railway stock to sector perform this year.

Analysts do not believe that an incoming recession will be worse than what we saw in 2008-2009. However, a recession could still diminish demand for CP Railway stock's services.

The onset of a harsh winter in the coming months might also lead to disruptions in railway operations. The combination of inflationary conditions, interest rate hikes, and harsh weather conditions could negatively impact its performance in the near term.

CP Railway stock is down by just 0.37% year to date at writing, despite the grim short-term outlook. It has outperformed the broader market in the same period by a significant margin.

How will the railway stock do in the future?

Railways are not typically the kind of publicly traded companies stock market investors think of when searching for growth stocks. Yet CP Railway might warrant a place in such a portfolio. A word of caution: past performance does not indicate future results. However, it does provide you with a good reference for how a company has done in the past.

CP stock delivered stellar returns to its shareholder in the last 10 years. It trades for $93.46 per share at writing, and it is up by over 520% from 10 years ago. The growth was a result of a change in its management and an overhaul of its operations. The new management streamlined everything and helped the railway improve its balance sheet by a significant margin.

It was not long ago when it acquired **Kansas City Southern** and added it to its already extensive railway network. The US$31 billion deal set CP Railway back, but the investment offers it a significant edge in the industry. With the Kansas City Southern a part of its network, CP Railway is the only Canadian railway company that travels from Canada through the U.S. and down into Mexico.

The addition of another major revenue stream could make it an attractive long-term investment. CP Railway can transport a lot more cargo, including assets that are in demand during recessions, making its cash flows safer and more secure.

Foolish takeaway

CP Railway has missed its recent-most earnings estimates due to rising costs. It is even possible for the stock to experience a downturn in the coming weeks. However, stock market investors with a long investment horizon could consider its decline an opportunity for a bargain.

The merger with Kansas City Southern is still not complete but looks likely to succeed. Once the deal pulls through, the company could be set for a stellar rally in the stock market. It could be the right time to invest in its shares.

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