Why Canadian Pacific Railway (TSX:CP) Is for Keeps

Description

Railroad companies are economic drivers because of the important roles they play in trade and commerce. Even in the current era, don't expect the old industry to lose its relevance or become obsolete. **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), for instance, has a bright future ahead.

The $97.93 billion company is Canada's second-largest railway operator after **Canadian National Railway**. The two companies dominate the freight rail operations in the country. CP is also the eighth-largest railroad company in the world by market capitalization.

Accelerating momentum

Keith Creel, CP's president and chief executive officer, is proud of the resiliency and discipline of the team despite the challenging environment in the first quarter (Q1) of 2022. He said, "They continue to display the grit and tenacity it takes to run a world-class North American railroad and deliver for our customers."

Creel added, "The strong demand environment for North American goods and commodities, coupled with our own unique growth initiatives and the promising upcoming Canadian grain crop, gives me confidence that we will continue to see momentum build into the back half of 2022 and beyond."

While net income in Q2 2022 dropped 38.6% to $765 million versus Q2 2021, total revenue (freight and non-freight) increased 7.2% to $2.2 billion. CP's operating income for the quarter was $868 million, which represents 6% year-over-year growth.

CP derives its revenues primarily from transporting freight, so the figure varies depending on the changes in freight volumes and certain variable expenses like fuel, crew costs, and other related expenses. Leasing of assets, contracts with passenger operators, logistical services, and other arrangements comprise the non-freight revenue.

Investors should be excited about the prospects for this railroad stock with the coming historic combination of two iconic railroad companies. The creation of the first U.S.-Mexico-Canada rail network would be CP's new catalyst for further business growth.

A single-line railroad

CP won the bid to take over and acquire Kansas City Southern (KCS) in the United States. However, the joint railroad control application to create Canadian Pacific Kansas City (CPKC) is under regulatory review by the U.S. Surface Transportation Board (STB). The filers expect the STB to complete the review by early next year.

Once STB grants control approval, the integration of CP and KCS will begin and should take about three years. Besides the creation of the only single-line railroad linking the United States, Mexico, and Canada, there would be a host of other benefits for the business combination.

Creel said, "We are excited to reach this milestone on the path toward creating this unique truly North American railroad." On August 16, 2022, CP announced receiving the required regulatory clearance from the Committee on Foreign Investment in the United States. The clearance should boost the chances of the approval of the proposed merger.

Invest now and hold for decades

The market environment today is very uncertain. However, CP continues to outperform and hold steady amid recession fears. At $105.32 per share, investors are up 16.22% on top of the modest but safe dividend yield (0.72%). If you're a long-term investor, CP is a must-own asset. Invest now, because the future of CPKC with freight in three countries is very bright.

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