CP Rail announces second-quarter results

Written by Canadian Pacific
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CALGARY, Alberta — Canadian Pacific Railway Limited (TSX/NYSE: CP) announced second-quarter net income of $157 million, an increase of two per cent from $155 million in 2008. The impact on net income from a decline in freight volumes was offset by a net gain after tax on the sale of a portion of CP's interest in the Detroit River Tunnel Partnership of $69 million. Diluted earnings per share were $0.93, a decrease of seven per cent from $1.00 in second-quarter 2008.

"The recession continues to have a significant impact on our business and although freight volumes appear to have stabilized, we have not yet seen a sustained recovery in traffic," said Fred Green, President and CEO. "In this economic climate we continue to manage what is in our control and I am pleased with our cost management efforts."

"Our goal is to make sustainable reductions in our overall cost structure and strengthen our balance sheet. Our concentrated efforts to improve critical business processes will drive efficiency and ensure that CP is well-positioned to deliver value in the long term."

SUMMARY OF SECOND-QUARTER 2009 COMPARED WITH SECOND-QUARTER 2008

For the second-quarter and the first-half of 2009, the results of the Dakota, Minnesota & Eastern Railroad (DM&E) are fully consolidated with CP's results. For comparison, second-quarter and first-half 2008 results have also been presented on a pro forma basis. In the second quarter and first-half of 2008, DM&E earnings were reported as equity income, and pro forma comparisons are provided in order to aid in the evaluation of the underlying earnings trends. Financial data presented on a pro forma basis, a non-GAAP measure, redistributes DM&E's operating results from an equity income basis of accounting to a line-by-line consolidation of DM&E revenues and expenses.

EXCLUDING FOREIGN EXCHANGE GAIN AND LOSS ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS ON A PRO FORMA BASIS

* Total revenues were $1.0 billion, down 21 per cent from $1.3 billion
* Operating expenses were $797 million, down 23 percent from $1.0 billion
* Income decreased to $100 million from $150 million, or 33 per cent
* Diluted earnings per share decreased to $0.59 from $0.97, or 39 per cent
* Operating ratio improved 120 basis points to 77.9 per cent

SUMMARY OF FIRST-HALF 2009 COMPARED WITH FIRST-HALF 2008

* Net income for the first half of 2009 was $220 million compared with $245 million in 2008, a decrease of 10 per cent.
* Diluted earnings per share were $1.33 down from $1.58 or 16 per cent

EXCLUDING FOREIGN EXCHANGE GAIN AND LOSS ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS ON A PRO FORMA BASIS

* Total revenues decreased 17 per cent to $2.1 billion and operating expenses decreased 15 per cent to $1.7 billion
* Income decreased 42 per cent to $154 million from $267 million
* Diluted earnings per share were $0.94 down from $1.72
* Operating ratio deteriorated 190 basis points to 82.6 per cent from 80.7 per cent

2009 CAPITAL PROGRAM

CP now expects its capital program in 2009 to be in the range of $800 million to $820 million, an increase from the previous outlook of $720 million to $740 million. This increase is due to a buy-out of operating leases and it is anticipated that the cash impact of this increase will be offset by the proceeds from the sale of other equipment in the latter half of 2009.

FOREIGN EXCHANGE GAIN AND LOSS ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS

CP had a foreign exchange loss on long-term debt of $15 million after tax in the second quarter of 2009, compared with a foreign exchange gain on long-term debt of $5 million after tax in the second quarter of 2008.

As part of a consolidated financing strategy, CP structures its U.S. dollar long-term debt in different taxing jurisdictions. As well, a portion of this debt is designated as a net investment hedge against net investment in U.S. subsidiaries. As a result, the tax on foreign exchange gains and losses on long-term debt in different taxing jurisdictions can vary significantly.

Other specified items in the second-quarter of 2009 included an after tax gain on the sale of a portion of CP's interest in the Detroit River Tunnel Partnership of $69 million. There was also a gain in the fair value of long-term floating rates notes received in replacement of the investment in Asset Backed Commercial Paper (ABCP) of $3 million after tax. There were no other specified items in the second-quarter of 2008.

For the first six months of 2009, CP had a foreign exchange loss on long-term debt of $6 million after tax, unchanged from the first half of 2008, and there was a charge taken in 2008 to reflect an adjustment to the estimated fair value of ABCP of $15 million after tax that was classified as an other specified item.