Canadian Pacific Railway Limited Still Hopes for a Merger

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) is still trying to piece together a continental rail network that includes the merger of the company with **Norfolk Southern Corp.** (NYSE:NSC). Canadian Pacific has now had a third offer rejected.

The latest deal put forth by Canadian Pacific came back with a response in the form of a letter to Canadian Pacific. It labelled the offer as being "grossly inadequate" and stated that the decision to reject the offer was unanimous across the board, mirroring the response from the prior offers.

For Canadian Pacific, which is still determined to continue trying to make a deal, is left with a few options. A sweetened deal may not get the response the company wants, so Canadian Pacific CEO Hunter Harrison will either need to go directly to the investors and force a change or, even more unlikely, abandon the notion of creating a transcontinental railroad.

The rejected proposal

The latest proposal that was rejected was an improved offer that sweetened the initial offer by as much as $3.4 billion, valuing Norfolk Southern at approximately $27 billion.

A combined 0.451 per share and $32.86 per-share payout would have been granted as part of the deal, with the combined new company trading in both Toronto and New York stock exchanges.

The merger would be a win-win for both companies, as Canadian Pacific would be able to further diversify the company by lowering its exposure to commodities, which are falling in price, by gaining access to the larger U.S. consumer markets.

The proposed network size of the merged company would be another benefit for both companies. Canadian Pacific has a strong presence in the west of the country, whereas Norfolk Southern has a strong presence in the southeastern U.S. The merged company would have access to three ports and span 55,000 km of track.

Railroad expansion

The last major boom of railroad expansions occurred in the mid-90s up until about 2001 when new rules went into effect with respect to rail consolidation. In that time frame, the number of major rail operators in North America was consolidated into the seven major players on the market today.

Canadian Pacific is still trying to forge ahead with other options or deals to merge with Norfolk Southern, noting that it is in the public interest for the companies to merge. Improved efficiencies from operational, economic, and fuel perspectives were all cited as reasons to merge.

From Norfolk's perspective, any deal will not pass regulatory approval, so it is not worth the effort in trying. However, Norfolk's rejection may just mean that Canadian Pacific has to sweeten the pot a little more with an improved offer or the company might go directly to the investors of Norfolk Southern and force a change.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. NYSE:NSC (Norfolk Southern Corporation)
3. TSX:CP (Canadian Pacific Railway)

Category

1. Investing

Date
2025/08/02
Date Created
2015/12/24
Author
dafxentiou