Canadian Pacific Railway Limited Is Still Shopping for a Railroad

Description

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) must really see something special in **Norfolk Southern Corp.** (NYSE:NSC)

Canadian Pacific has made multiple approaches to take over Norfolk in the past few months, all of which have been rejected. The phrase "grossly inadequate" has been used on a number of occasions in Norfolk's response. The initial offer was valued at nearly $30 billion, but has since declined to be worth nearly $27 billion thanks in part to declining railway stocks and the commodity slump in the market.

What has changed?

Canadian Pacific still wants takeover Norfolk–that is certain. However, the method in which Canadian Pacific will be going about the takeover has changed.

Rather than opting for a proxy fight to force a favourable regime change that is more amenable to a takeover in the boardroom, Canadian Pacific will likely ask for a nonbinding resolution at the upcoming annual meeting as to whether or not Norfolk should begin talks with Canadian Pacific.

Appealing to shareholders can force the hand of the company if the reasoning and support is compelling enough. Norfolk and shareholders of the company are no doubt aware of the potential growth prospects and the expanded network that would arise from a merger with Canadian Pacific.

Railroad pundits and investors are quick to note the impressive work that Canadian Pacific CEO Hunter Harrison has made in turning around Canadian Pacific; it is now one of the most efficient railroads on the continent. Norfolk shareholders in particular should be jumping at the chance to see the railroad run more efficiently with increased revenues on a larger network.

Why Norfolk Southern?

Canadian Pacific, like most railroad operators, wants to lower the company's exposure to the falling prices of commodities. A deal with Norfolk would give the railroad access to large U.S. consumer markets.

The network size of the combined company would be immense. Canadian Pacific has a strong presence in the west; it has access to the pacific coast on a network of 22,000 km of track. Norfolk Southern has a strong presence in the southeastern U.S. with access to both the Gulf coast as well as the Atlantic. Assemble both of those networks, and you get a mammoth network of 55,000 km of track with service to three ports.

Canadian Pacific currently serves Chicago, which is the major bottleneck in the railroad's network. Moving rail cars through the terminal and to subsequent lines can take more than a day because of rail traffic. Given Canadian Pacific's successful improvements over the past few quarters in terms of moving freight, eliminating or reducing the Chicago bottleneck through the deal could lead to further efficiencies for the company.

CATEGORY

1. Investing

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1. NYSE:CP (Canadian Pacific Railway)
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3. TSX:CP (Canadian Pacific Railway)

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