Canadian Pacific Railway Limited Is No Longer Pursuing Norfolk Southern Corp.

Description

After a long six months and multiple attempts, **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) is calling off attempts to acquire Norfolk Southern Corp.

Canadian Pacific was hoping the proposed $28 billion bid would see the two companies form the largest railway in North America with an estimated savings of $1.8 billion annually. The combined company would have combined Canadian Pacific's extensive Canadian network, which crosses into the U.S. Midwest, with Norfolk Southern's predominately southeast footprint.

Railway mergers don't happen often

There haven't been any railway mergers since extensive jurisdiction was granted to the Surface Transportation Board (STB) over railway mergers back in 2001 following a series of mega-mergers. Currently, there are two major railways in Canada and four major railway companies in the U.S.–two east and two west of the Mississippi.

An application to the STB relating to the merger that would see a voting trust structure setup had already been granted preliminary approval, but that was before a flurry of requests for that decision to be rejected came in from a number of different interests.

The U.S. military raised concerns in the name of national defense against the merger, citing the need for the military to use rail to haul defense-specific cargo around the country.

Lawmakers in Congress also raised concerns about the deal, including all Democratic representatives from Illinois and Pennsylvania. One of the major advantages that Canadian Pacific was looking forward to from the deal was to be able to bypass Chicago entirely under the combined network, which no doubt would raise concerns in Illinois.

Even **United Parcel Service** and **FedEx** raised concerns about the potential impact to already delicate schedules and delivery times. UPS happens to be the largest client of all of the U.S. railway companies.

The U.S. Department of Justice joined in this week and recommended that the STB reject that preliminary approval.

What’s next for Canadian Pacific and Norfolk Southern?

Clearly, any chance of a deal–at least a friendly one–is now off the table.

Canadian Pacific will continue to do what it has done best over the past few quarters, which is strive for continued improvements in efficiency and reducing costs. Railway pundits will begin to speculate about a smaller deal involving the sale of tracks to Canadian Pacific, which would still meet the Chicago-bypass objective of the company, but this too seems unlikely.

Canadian Pacific CEO Hunter Harrison echoed this in a statement: “We have long recognized that consolidation is necessary for the North American rail industry to meet the demands of a growing economy, but with no clear path to a friendly merger at this time, we will turn all of our focus and energy to serving our customers and creating long-term value for CP Shareholders.”

With much of the uncertainty around the acquisition now over with, the market has responded well; the stock is up over the past week by over 10%, and an outperform rating was slapped on the stock.

Norfolk Southern shareholders who may have been contemplating the growth prospects of the combined company after hearing Harrison state he could make the company more efficient and reap billions in savings from the combined company can now return back to reality–as will the stock price, which had a number of spikes during the course of the past six months.

In my opinion, Canadian Pacific represents a sound investment for those looking to diversify and obtain a railway stock that is set to grow for the next few years.

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2. NYSE:NSC (Norfolk Southern Corporation)
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Date
2025/08/01

Date Created
2016/04/14
Author
dafxentiou