Breaking News: CP Acquires Kansas City Southern for US$25 Billion

Description

Yesterday, it was announced that **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) has agreed to acquire **Kansas City Southern** (NYSE:KSU) for US$25 billion.

The new merged entity will be listed under the CPKC ticker and named "Canadian Pacific Kansas City." Additionally, the company will retain its headquarters in Calgary.

The deal is set to increase CP's standing on the list of North American railway options for investors. Size isn't all that matters, but it certainly plays a big role in the minds of many long-term investors. Indeed, Warren Buffett has talked at length about the efficiency metrics of BNSF, one of his core holdings. Accordingly, Buffett has argued that these efficiency metrics wouldn't be possible absent BNSF's size and considerable capital investments.

In the case of CP-KSU, it appears the two railroads have the potential to provide improved synergistic value to shareholders post-merger.

Rail footprint "unmatched"

Perhaps the most intriguing piece of this deal is the sheer size of CP's footprint post-acquisition. The sixth- and seventh-largest railroads in North America are combining to become a more meaningful player in the rail sector.

However, this deal is much larger than the aggregate track the combined company will have post-merger. Indeed, Kansas City Southern's CEO Patrick Ottensmeyer called the total footprint of the new North American juggernaut "truly unmatched."

Unmatched is a powerful word. However, I couldn't agree more.

The deal will create the first freight-rail network linking Canada, the U.S., and Mexico. All three countries looking to recover to “new normal” levels of activity coming out of this pandemic. Accordingly, investors bullish on the North American economy may want to look at CPKC. Indeed, few truly “North American” options exist for investors to benefit from the three largest economies in the continent.

Indeed, it appears CP’s management team is a believer in the relationship between the three countries right now. Here’s why that could be a good and a bad thing.

Investors betting on friendly North American neighbors

As mentioned, all three countries have traditionally held a friendly relationship in recent decades. The pandemic has dealt a major blow to the three neighbors. Accordingly, increased economic activity is going to spur the need for additional trade, as countries seek to meet rising demand domestically.

This railroad should be a key lifeline to getting goods and services routed to where they need to go. Indeed, a boost in international trade at a time like this is likely. Investors in CP will need to be bullish on this idea.

However, Biden’s been giving the cold shoulder to other countries of late. His “Buy America” policies are really an extension of Trump’s “America first” stance. If his stance on trade remains restrictive via tariffs or other trade-inhibiting pieces of legislation, this deal could look less attractive.

Another key headwind CP could face in this deal is regulatory approval in the United States. The U.S. Surface Transportation Board will need to ensure the deal is in the best interest of the public via enhancing competition. This review could take a year or longer to complete.

Thus, investors in CP will need to be patient.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2021/03/22
Author
chrismacdonald