



## CN Rail vs. CP Rail: Which to Buy Amid Bid for Kansas City Southern?

### Description

**CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) was under considerable [pressure](#) this week thanks in part to management's decision to one-up its top rival **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) with a [sweeter](#) bid to acquire **Kansas City Southern** (NYSE:KSU). The feud between CN and CP is really nothing new. It didn't take long for CP Rail's top boss to slam CN Rail, going as far as stating that the rail's debt-fuelled bid for Kansas City Southern was using "fantasy money" and "fool's gold."

Those are some pretty harsh words. While CP Rail doesn't yet have plans to sweeten its offer further, I think it will counter in due time. Statements made by CP's chief executive, I believe, are indicative of the start of a bitter bidding war between Canada's top two railway kings.

### CN Rail versus CP Rail: The start of an epic bidding war?

There's no question that CN Rail faces harsher regulatory roadblocks than its smaller peer CP Rail. CN Rail has one of the larger rail networks in North America, right behind Warren Buffett's BNSF Railway. If CN Rail were to successfully acquire Kansas City Southern, it would pretty much control the north-to-south movement of freight. Such a deal would give the firm access to Canada, the U.S., and Mexico, giving the railway a huge edge over truckers that would have spent a considerable time at border crossings.

Now, there's no question that Canada's railways will be paying a pretty penny for its pursuit of CP Rail's prize. CN Rail has the liquidity to make a massive splash, and it's doing so. At this juncture, it seems like CN Rail has swooped right in and stole CP Rail's lunch.

With greater regulatory risk with a CN-Kansas acquisition than a CP-Kansas one, and the chance that CP Rail one-ups CN Rail with a sweetened bid of its own, I think the steep near-7% drop in shares of CN Rail is overdone. I don't think CP Rail is going to let CN Rail win Kansas City Southern, even if it means running the risk of destroying shareholder value over the near term with a beefed-up offer.

## It's CP Rail's move...

Jason Seidl, an analyst at Cowen and Company, recently noted that he expects CP Rail to counter, and that Kansas City Southern looks like "too good of a property to give up without a fight."

Seidl also stated that he expects "bids to go up from here" and thinks a bidding war could see the railroads "significantly up the cash portion" of future offers. Cash is king, after all!

I think Seidl is right on the money. The managers at CP Rail are not happy with CN Rail's bid. The bitterness between the two rail giants is almost palpable. Although CN Rail seems to have the upper hand right now, I think the odds that CP Rail counters and wins Kansas City Southern are pretty high.

With Kansas City Southern's network added to CP's, the resulting network will still be relatively small as far as major railways are concerned. Should CP end up winning its bid, I suspect CP Rail stock could fall under even more pressure. Perhaps shares could fall into a correction. As for CN Rail, I think the stock could recover the ground lost on news of its recent bid if CP were to walk away from the bidding war as the winner.

## Foolish takeaway

If the battle for Kansas City Southern does turn into a bitter bidding war, the winner could be the loser, especially if the price tag is well north of the US\$30 billion mark. In the meantime, both CP and CN Rail stocks will likely continue treading water until the Kansas City Southern sweepstakes has a winner.

I think CNR stock is the better buy, as CP may make another offer that Kansas City Southern shareholders can't refuse. And if CN Rail does win the prize, it'll have a virtual monopoly over North America's north-to-south rail traffic. In my books, it's a win-win for CN shareholders.

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