



CN Rail Stock Is So Undervalued That it's Absurd

Description

CN Rail ([TSX:CNR](#))([NYSE:CNI](#)) has been under considerable pressure over these past few weeks. The incredible Canadian company got itself in a bidding war with none other than its top rival **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) for the rights to scoop up prized U.S. railway **Kansas City Southern**.

The winner will get a solid network in the southern U.S. and Mexico, crowning the first rail to have exposure to Canada, the U.S., and Mexico, an enviable title that both CN and CP Rail are willing to fight for.

As you may know, bidding wars tend to be bad news for shareholders of the acquirer but great news for the acquired. In this case, Kansas City Southern shareholders are applauding the bidding war. That's more cash in their pockets, after all.

CN Rail shareholders haven't been too [happy](#) about the company's recent US\$33 billion sweetening of the pot. That's a considerable sum, and there's a lot of debt. And the bidding war may very well be in its early innings. Whether or not the historic rail acquisition entices credit rating agencies to hit the downgrade button remains to be seen.

CN Rail stock corrects amid bidding war with CP Rail for Kansas City Southern

It's been a painful few weeks for CN Rail shareholders. The stock currently finds itself down just shy of 11%. Investors clearly believe that US\$33 billion is too high a price to pay for Kansas City Southern, even with the incredible north-south network and the ridiculously wide moat CN Rail will have if the deal goes through.

Cascade Investments recently gave the thumbs up on CN Rail's sweet offer for Kansas City Southern, though, noting that it "fully supports" the discussions going on behind the scenes. Cascade reported owns just over a 14% stake in CN Rail. And, as you'd imagine, CN Rail CEO J.J. Ruest and company had better appease their top shareholder if they're going to enter a bidding war with its Canadian rival.

Personally, I think a CN-Kansas City Southern deal, while expensive, will work out over the long term. I think there's incredible value to be unlocked for investors willing to stick around through the so-called Roaring 2020s. We're on the cusp of what could be the biggest economic expansion in decades. And I think in five years from now, the sticker price on such a prized rail network will have gone up — possibly way up. As such, I, like Cascade, like the deal, even though the sticker price is a tad on the rich side.

What are the odds that CN will acquire Kansas City Southern?

CN Rail is one of the largest North American railways, and if it adds Kansas City Southern, it'll pretty much control the north-south moves across the continent. One has to think that federal regulators will scrutinize the deal far more than a CP-Kansas City Southern deal, which would still result in a relatively small railway.

Moreover, as discussions between CN and Kansas City Southern go on, it'll be CP Rail's move. Their managers are undoubtedly disgruntled, and they've given off the impression that they won't place another bid. That said, I think they will look to sweeten up their existing offer.

Even though it looks like CN will win the prize, I think CP could still walk away a winner. Heck, I think that's a likelier scenario if regulators were to start asking questions. If such a scenario happens, CN Rail stock could regain the ground it lost over these few weeks, perhaps an upside correction in excess of 10%. And if CN Rail does make it official with the [iconic](#) rail deal, the stock may not have much downside from here.

I think CNR stock is the cheapest I've seen it in quite a while, and investors would be wise to hop aboard the profit train ahead of the Roaring 2020s.

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Date

2025/08/19

Date Created

2021/04/30

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