



The Drama Heats Up in the Railroad Bidding War

Description

Canada's two biggest railroad companies, **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) and **Canadian National Railway** ([TSX:CNR](#)) ([NYSE:CNI](#)), are now in a [bidding war](#) for the U.S. railroad **Kansas City Southern** (NYSE:KSU).

Here's a rundown of what's been going on with this railroad merger mania that's hitting Canadian railroad stocks recently.

What's this hubbub about?

This past week, CN stepped into the fray, following up the CP offer for KSU with an even larger bid. Indeed, CN's deal is approximately 20% higher at US\$325 per KSU share compared to CP's offer of US\$275 per KSU share.

Both proposals encompass a combination of cash and stock. However, CN's deal offers a juicy US\$200 in cash compared to CP's US\$90 cash component offered.

These friendly rivals have become much less friendly over this bidding war for KSU.

CP's CEO has called the deal "fools gold" and one that is essentially impossible to get approved. Why? Well, CP's rail networks have little overlap with KSU's. However, CN is another key player in north-south shipping in the United States. Accordingly, if the deal went in front of regulators, the reduction of four north-south shipping options to three would likely come across some significant regulatory scrutiny.

Additionally, it appears there's some underlying animosity between the two otherwise friendly railroad companies right now. Since CP believes the offer isn't real, the company is insinuating that the entire purpose of the deal could be to drive up the price CP would have to pay for the transaction. Kansas City Southern has seen its share price rise well above CP's offer price, indicating investors believe it will cost more than US\$275 to close the deal.

Bottom line

The potential scope of the combined railroad would be massive. This would be the first railroad to span Canada, the U.S., and Mexico. Accordingly, this is also a deal that will likely face a tonne of regulatory scrutiny when it is put in front of regulators.

Owning a railroad with over 32,000 km of track would be a huge deal for shareholders. The new USMCA deal that is in place adds a solid backdrop to the eventual winner in this bidding war.

Who comes out ahead remains to be seen. However, CP's CEO does have some valid points. If this is indeed a one-horse race, and CP raises its bid to match CN's, shareholders could potentially walk away with a truly international railroad at the end of the day.

However, what KSU's board and shareholders decide to do remains to be seen. For now, this drama is intriguing, and I'm on the edge of my seat.

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