Canadian National Railway (TSX:CNR): My Top TSX Stock to Buy in May 2021

Description

With the **TSX Index** continuing to climb to new highs, many folks are ringing the alarm bell, calling for some correction, citing extended valuations, surging rates, an increased appetite for speculation and climbing levels of margin debt as primary reasons to rush to the exits.

With last week's round of blowout earnings and relatively low rates, though, I still think most investors should be buyers, not sellers, this May, as they plan to go away for the summer season.

The case for buying TSX stocks in May 2021

We've witnessed numerous blowout earnings beats that have failed to move the needle. That's resulted in a considerable amount of multiple compression across the board. Just like that, and the froth has been levelling off without causing any market-wide meltdown that some of the bears may have thought we were in for.

As we march closer to the post-pandemic environment and into the Roaring '20s, there's a chance that today's "frothy" stocks may actually prove to be undervalued, given the environment that's been set up and how meagre rates are these days. Simply put, I think people sitting on the sidelines with excessive cash hoards have the most to lose, as they pass up on the bargains that are pitched up before them.

Consider **Canadian National Railway** (TSX:CNR)(NYSE:CNI), a freshly corrected railway stock that I believe has a high chance of an abrupt correction to the upside over the coming weeks and months.

The bidding war is Canadian National Railway's to lose

CN Rail is a wide-moat, dividend-growth king that's profoundly rewarded investors who've gone against the grain with the name during temporary bouts of weakness. The company is the backbone of the Canadian economy, with some of the highest barriers to entry out there protecting its share of economic profits over the long haul.

The stock is fresh off of a 10% dip induced by a high-stakes bidding war with its top rival CP Rail for the right to acquire **Kansas City Southern**. Bidding wars are never good for investors of the acquiring company. Oftentimes, the price paid is absurd, and it's the winner that comes out as the loser from the perspective of value creation.

While US$33 billion is a high price to pay for Kansas City Southern, I think the plunge in Canadian National Railway stock is overblown, given CP Rail is, I believe, more likely to walk away with the prized asset, which would cause a pretty pronounced upside correction in shares of CN Rail.

CP Rail objects!

More recently, **CP Rail** filed a formal objection with U.S. regulators over CN Rail's latest bid.

As the larger and more dominant North American railway, Canadian National Railway will draw in far more scrutiny from regulators. It's possibly that CP Rail could walk away with Kansas City Southern at a price below Canadian National's current bid.

I think CN Rail is just trying to make things harder for its rival. And if that ends up being the case, investors ought to back up the truck on CN Rail stock now before its takeover offer has a chance to fall through, either through regulatory roadblocks or a sweeter offer by CP.

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Date

2025/07/28
Date Created
2021/05/03
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