



Why CN Rail Is a Great Buy, Regardless of Whether the KSU Deal Goes Through or Not

Description

Canada's two largest railroad companies, **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) and **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) are going all-out to acquire **Kansas City Southern** (NYSE:KSU). Indeed, recent events have made this potential merger one of the hottest topics on the TSX today.

Here's what's going on with this [drama](#) today and why investors should pay attention to the headlines in this case.

The potential bidding war

The original CP offer of US\$275 per share was one that sent KSU shares on a nice ride higher. However, after the offer, shares traded higher than the US\$275 share price. Indeed, investors appeared to be pricing in some sort of an increased bid or secondary bid with this stock.

Investors were right.

CN followed up CP's offer with a substantially higher bid. Indeed, the company's US\$325 offer represented an additional 18% premium to CP's offer. Furthermore, this offer beefed up the cash component from US\$90 per share in CP's offer to US\$200 per share with CN's updated offer.

Both offers appear to be under review from Kansas City Southern's board presently. However, the question remains: which railroad will ultimately win out? And, if this is indeed a bidding war, will offer prices continue to be raised from here?

It appears CP may have the inside track at this moment, despite the railroad's lower bid. Analysts are speculating that a CN-KSU merger would likely be difficult for regulators to approve due to the overlap in routes between the two transportation giants. Less consumer choice would result from the consolidation of north-south routes that would likely transpire with such a deal. And CP's CEO seems to agree on this point.

Bottom line

This deal, should a deal get done, would result in the largest railroad deal in some time. Additionally, this would be the first railroad to span the North American continent (at least Canada, the U.S., and Mexico).

Getting railroad mergers approved is tricky business. Various railroad mergers have failed in the past, as meeting the Surface Transportation Board's requirements can be onerous. Accordingly, I think there's a considerable amount of risk betting on a merger being completed at the end of the day.

However, I think CP's bid for KSU highlights the value the company sees in the company's U.S.-Mexico rail lines. Investors in the railroad space certainly have a lot to like, with economic projections continuing to be bullish coming out of this pandemic. Regardless of whether a deal is done or not, CP and CN both look like solid plays today.

Railroads are one of the most economically sensitive sectors to own. Accordingly, for those looking for pandemic reopening plays, these stocks ought to make investors' watch lists today.

CATEGORY

1. Investing

POST TAG

1. growth
2. growth stocks
3. investing
4. market
5. Stocks

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. 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. Investing

Tags

1. growth
2. growth stocks
3. investing
4. market
5. Stocks

Date

2025/08/17

Date Created

2021/05/03

Author

chrismacdonald

default watermark

default watermark