



CN Rail or Air Canada: Which Stock Is the Better Buy on the Dip?

Description

CN Rail ([TSX:CNR](#))([NYSE:CNI](#)) and **Air Canada** ([TSX:AC](#)) stock have been dealt a nasty jab by Mr. Market in recent weeks. The former finds itself in the middle of a bidding war with its top rail rival **CP Rail**, while the latter has been turbulent over the recent wave of COVID-19 cases. With both popular Canadian stocks now fresh off a plunge, should you look to do some buying this May? Or could more pain be in the cards as we head into the summer months?

CN Rail

CN Rail is one of the widest-moat companies on the planet. The company recently one-upped CP Rail with a US\$33 billion bid on **Kansas City Southern**.

Kansas City Southern is undoubtedly the ultimate prize. With minimal rail overlap in the southern U.S. and Mexico, whichever railway wins the right to acquire will essentially have a pretty wide moat around North America's cross-border moves. The winner of the Kansas City Southern bidding war will be the go-to transportation kin for north-south moves.

With a historic economic boom underway, there's no question that the winner of the bidding war has a lot to win. That said, the sticker price is getting a tad too high for investors' liking. As you may know, bidding wars, more often than not, can lead to value destruction for shareholders of the acquiring firm.

Now, I do not doubt that the managers at CN and CP Rail have done their due diligence. But with bidding words exchanged between the two rails in the midst of what could be a fierce bidding war, there's really no telling how high the price on Kansas City Southern's prized assets will be bid up or if US\$33 billion will be as high as it gets.

In any case, I view the damage done to CN Rail stock as overblown beyond proportion. Shares are now down 10% on news of CN's rival offer.

It's CP Rail's move right now, and it looks like CP is pushing for U.S. regulators to step in. CN Rail is already one of North America's biggest rails. As such, I do think there's a chance that U.S. regulatory

action could allow CP Rail to win the right to scoop up Kansas City Southern without having to one-up CN Rail's current offer significantly.

With a rail deal baked into CN Rail stock, I'd say now is a great time to be a buyer. The stock could easily correct to the upside should CP Rail come out on top, as it looks to get regulators on its side.

Air Canada

Air Canada is arguably one of the sexiest reopening plays on the **TSX**. Shares of the name have been giving shareholders a turbulent ride over the past year. Massive daily percentage moves have become the norm, and with Ottawa providing a generous round of financial relief, it seems as though the Canadian airlines' survival is guaranteed.

The federal government has shown a willingness to step in when the balance sheet falls under immense pressure, and it's this lifeline that I believe will guide the firm to the other side of this pandemic.

Canada is taking steps to ramp up with its slow vaccine rollout. Domestic travel is likely to recover into the summer, and that should lift a weight off of Air Canada's shoulders. As an airline that derives a considerable amount of revenue from international air travel, though, Air Canada needs the global vaccine rollout to go smoothly.

In due time, COVID-19 will be conquered and Air Canada will reach 2019 levels of travel again. But investors had better be willing to hold through excessive amounts of turbulence over the next three years.

And the better buy is?

I wouldn't hesitate to recommend both names.

While Air Canada has more [upside](#) over the next three years, it will also require investors to [bear more risk](#) than a Steady Eddie like CN Rail. The airline stocks and the implied volatility aren't going to be everybody's cup of tea. As such, I believe CN Rail is the better buy for most investors easily rattled by turbulence.

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