



## CN Rail Is a Top TSX Stock Amid a Bidding War

### Description

Canada's top railway companies **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) and **CP Rail** ([TSX:CP](#))([NYSE:CP](#)), took their [bitter rivalry](#) to the next level over the past month.

Undoubtedly, **Kansas City Southern**, a small railway in southern North America, seemed like the perfect fit for Canadian-focused CP Rail. There was near-zero overlap between the rail networks of CP and Kansas City Southern. It was really a match made in heaven.

The resulting railway would have given CP a wide moat in north-to-south freight moves. The price of admission, while high at just north of US\$33 billion, probably wasn't too much to stomach. There was an imminent economic boom with the roaring 2020s just up ahead, after all.

North America's most efficient railway, CN Rail, wasn't just going to sit around and let its peer walk away with an incredible network that Canada, the U.S. and Mexico. Such a deal was likely to have taken a bite out of CN's business. That's a major reason why the company one-upped its bitter rival with its own bid valued at US\$33.7 billion, marking the start of a potentially bitter bidding war.

You always hear of American behemoths scooping up smaller Canadian ones, seldom the other way around. So, the CN-CP Rail bidding war for Kansas City Southern was quite refreshing news for Canadians.

CN Rail shareholders are clearly not fans of the premium price tag, though. Nor are they happy about the potential for a further intensification of a bidding war.

That's a major reason why CNR stock had plunged into a correction shortly after the firm announced its decision to outbid CP. Although the stock has bounced modestly off the bottom, shares remain off over 8% from their highs, a level that could be reached over the near term should CP end up coming out on top.

## It's your move, CP Rail!

It's CP Rail's move. How is Canada's second-largest rail giant going to respond to a richer, superior offer from its bigger brother?

The rich price set forth by CN Rail is steep at around US\$33 billion. There's a considerable amount of debt involved right now, and that's likely why many CN shareholders have opted to throw in the towel. Bidding wars increase the odds that the acquirer will overpay for a firm, thus destroying long-term shareholder value.

Given the commentary of the folks at CP, referring to CN's latest offer as a "fantasy," it doesn't seem like they want to raise extreme amounts of debt such that credit rating agencies will take notice.

## **A historic CN Rail-Kansas City Southern acquisition: Historic deal or fantasy?**

As the larger rail, CN Rail faces higher regulatory hurdles from U.S. regulators. CP knows this, and that's why they've opted to sit on their hands and wait for potential hurdles to present themselves in front of CN Rail. CP filed a formal objection with U.S. regulators, and I think there is a high chance that CP Rail could land the deal it wants at the price it wants, although some modest modifications (maybe a little more sweetener is in order?) are likely.

Could regulators block CN's takeover attempt and allow CP to win the right to scoop up Kansas City Southern without having to go to war with its bigger brother? I'd say such a scenario is more than likely.

Just last week, U.S. regulators gave CP Rail the green light to bid in what CP CEO called a "critical milestone." CN Rail expects their green light to come soon after, but I don't think they'll get it.

Could CN Rail's bid just have been an effort to drive up the price and make things harder on its top peer?

Only time will tell. Regardless, I believe that investors ought to be scooping up CN Rail stock because they could [quickly surge](#) back to all-time highs should CN be pressured to walk away. I think far too many investors are discounting the odds of a regulatory roadblock that could allow CP Rail to win over Kansas City Southern.

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