CN Railway (TSX:CNR) Wins the Kansas City Sweepstakes!

Description

Last night, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) shareholders got news to rejoice about, as **Kansas City Southern** (NYSE:KSU) stated that it would accept CN's buyout offer. The news came after a months-long bidding war between CN Railway and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), which saw the asking price for KSU rise substantially.

In March, Canadian Pacific had a deal to buy Kansas City Southern all tied up. Unfortunately for CP, CN got wind of the deal, and outbid it. For a while, Canadian Pacific held out hope that regulators would reject CN's offer. But after receiving 1,000 support letters, CN now has about twice as much support as CP has. At this point, it looks almost certain that CN will acquire KSU. In this article, I'll explore this takeover drama in detail, and what implications it might have for investors.

CN bid beats CP

The CN-CP bidding war started on March 21. On that date, CP announced that it would acquire Kansas City Southern in a $29 billion deal. At that point, the deal looked ready to close. But immediately on hearing the news, CN rail swooped in and beat CP's bid by about $4.6 billion. Included in that bid was a $700 million fee that KSU has to pay CP to back out of its previous deal.

KSU will select CN's bid

A higher bid doesn't necessarily mean a winning bid. In the infrastructure world, all deals have to obtain significant regulatory approvals. In many cases, deals have been cancelled because the required approvals weren't obtained. For example, **Air Canada** recently had a deal to buy out **Transat** all but closed. But the deal required approval by EU competition regulators, who didn't allow it.

After CN announced its intent to buy Kansas City Southern, CP initially believed that these regulatory factors would favour its own bid. But after getting support letters from key industry insiders, CN has the go-ahead. Given the higher bid and CN's massive industry support, Kansas City Southern decided to accept its bid.

The winner's curse

If you're a CNR shareholder, you might be elated to hear that CN has won its bid to take over Kansas City Southern. It's always exciting when a company you invest in makes a big M&A deal — and doubly so when it was contested. But there are many reasons to proceed cautiously. Winning an M&A war isn't always a good thing. In economics, there's a concept known as the "winner's curse," which describes a situation where an auction results in the winner overpaying for the item for sale.

The same kind of dynamic can occur in M&A activity, when you have two companies furiously competing for an acquisition target. It creates a mindset where the participants become determined to "win" at any cost, forgetting the intrinsic value of the asset being bought.

Could the winner's curse come back to haunt CN later? Only time will tell. The price $325 price CN is paying is only about 3% higher than KSU's current stock price of $315. Viewed in that light, it may not be so steep. However, KSU was only trading for $200 at the start of the year. The CN-CP bidding war probably had some role in driving the share price up, and there's no guarantee that the stock would have reached these levels without it.

The markets seem to think CN's win is good news, however. As of this writing, CN shares were up 3% in futures markets, while CP shares were down about 1%.

CATEGORY

1. Dividend Stocks
2. Investing

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. Dividend Stocks
2. Investing

Date
2025/08/23
Date Created
2021/05/14
Author
andrewbutton