



Canadian National Railway (TSX:CNR) Stock: Should You Buy the Dip?

Description

Canadian National Railway ([TSX:CNR](#)) ([NYSE:CNI](#)) is pushing ahead with its plan to outbid rival **Canadian Pacific Railway** ([TSX:CP](#)) ([NYSE:CP](#)) for U.S.-based **Kansas City Southern** (NYSE:KSU). CN's share price took a big hit on the news and investors want to know if CN stock is now [undervalued](#).

Kansas City Southern deal

Kansas City Southern said it intends to walk away from a deal with CP in favour of a higher bid from Canadian National Railway. CP had agreed to pay US\$25 billion for Kansas City Southern. CN initially responded with a higher offer and recently won approval from Kansas City Southern on an improved bid. CN raised the amount of stock it would provide. The [deal](#) is for roughly US\$30 billion plus the assumption of US\$3.8 billion of debt.

This gives Kansas City Southern shareholders a premium of about 45% above where the stock traded before the announcement of the original CP deal.

CP has the option to respond with a counter bid by May 21. Otherwise, it gets a US\$700 million payout from Kansas City Southern for breaking the previous agreement.

The market appears to think CP will pocket the cash and walk away. CP stock is trading near its record high. CN stock, in contrast, is down more than 13% from its 12-month peak.

What happens next?

CP says it doesn't plan to get into a bidding war. It is much smaller than CN and wouldn't be able to win the fight unless it found a partner. CP maintains the position that regulators are more likely to allow CP and Kansas City Southern to merge, citing limited competition issues.

Railway merger attempts have previously run into regulatory roadblocks. CN thinks it can win approval to take over Kansas City Southern. It has said it only identified 70 miles of track that might be an issue

and would be able to find a solution to any competition concerns.

In the near-term, all eyes are on CP to see if it will take the cash and bow out or find additional financing to boost its bid.

Is CN stock a buy now?

At the time of writing CN stock trades close to \$129 per share compared to nearly \$149 in April. The stock hit a pandemic low of around \$100 last year, but quickly rebounded.

Uncertainty around the outcome of the deal will likely keep the stock under pressure in the coming weeks. In the event CP comes back with a matching offer supported by deep-pocketed partners, CN might be forced to boost its bid. The existing offer already looks rich, so the market might punish the stock even more if a bidding war gets out of hand.

That said, the long-term outlook for CN remains positive, regardless of how the Kansas City Southern battle ends. Historical dips in the share price have always proven to be good buying opportunities and this one should be the same.

While additional near-term volatility should be expected, buy-and-hold investors might want to add some CN stock to their portfolios while shares are out of favour.

CATEGORY

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