



## Forget a Bidding War: CN Rail (TSX:CNR) Is a Top Canadian Stock to Buy on Weakness

### Description

The bidding war between **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) and **CP Rail** for the right to acquire **Kansas City Southern** could intensify over the coming weeks. Shareholders at Kansas City Southern seem happy with CN Rail's bid. It's a pretty sweet offer that is worth around US\$33 billion at the time of writing. Shares of CN Rail seem to be suffering from a bad case of sticker shock, with the stock now [down](#) over 13% from its high. It was a vicious correction, and I think it's one that Canadian investors ought to be buyers of, regardless of which Canadian rail rival walks away as the winner of this historic bidding war.

CN stock took a nearly 4% hit on Friday, and with a win mostly baked into the share price, I'd argue that investors stand to enjoy a massive upside correction should CP Rail look to match CN Rail's current bid, perhaps with a tiny bit of sweetener (a greater portion of cash?). Even if CN Rail does end up acquiring Kansas City Southern in a deal worth around US\$33 billion, I think investors are discounting the [longer-term growth potential](#) to be had with the resulting network.

### CN's bid may not be as rich as investors think

With Kansas City Southern's railway thrown into the mix, CN Rail will boast an enviable network, indeed. It'll have a north-south network that's unlikely ever to be matched in North America. With a revamped USMCA trade deal, Kansas City Southern may actually be worth the premium price tag CN will stand to pay.

In many ways, I believe a Kansas City Southern rail deal rhymes with the Illinois Central deal made ahead of NAFTA back in the 1990s. While such a deal could take many years to pay off meaningfully, investors still seem worried that CN is at risk of overpaying. After all, bidding wars tend to drive up the price of admission and increase the odds of considerable shareholder value destruction.

That said, the state of free trade could take a turn for the better over the coming years. Whichever railway acquires Kansas City Southern could pay meaningful dividends for years to come, as the

economy takes off in a roaring environment, the likes of which we may not have witnessed in years.

It's tough to tell how much Kansas City Southern ought to be worth in the hands of Canada's most efficient railway. But at this juncture, I think you have to give CN Rail CEO J.J. Ruest the benefit of the doubt here. Big-time CN investor Bill Gates of Cascade Investments certainly seems to be fine with CN's seemingly pricy bid. If he's comfortable with the deal, investors should be, too.

On the line is the first railway with a network that runs through the U.S., Canada, and Mexico. And for sought-after exposure to the southern market, I think the price of admission isn't all as expensive as it could be.

## Foolish takeaway on CN Rail stock

Over the coming weeks, we'll learn more about what's up next with the bidding war. I suspect CP Rail won't let CN Rail walk away with its lunch, despite comments that suggest the company isn't looking to one-up its rival with more debt on its books.

Could CN Rail winning the bidding war for Kansas City Southern really be nothing more than a "fantasy" as CP's top boss thinks?

I think not. In any case, I view the 13% plunge in CN Rail stock as overdone and think shares will be headed much higher over the coming weeks, whether or not CN Rail ends up acquiring Kansas City Southern.

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