



## What to Make of the CN-KSU Mega-Merger

### Description

On Friday, it was confirmed. **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) will officially be merging with **Kansas City Southern** (NYSE:KSU).

In a [deal](#) which will result in a massive shift in the North American railroad landscape, investors are trying to digest what this deal will mean for both parties. The fact that Kansas City Southern accepted CN's offer may not come as a surprise. CN did outbid **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) by a significant margin, after all. However, the regulatory scrutiny that is likely to follow as a result of this deal may provide an interesting opportunity for investors.

Let's dive into what this deal means for interested parties.

## Does a done deal make for a buying opportunity for investors?

After a large-scale tussle between CP and CN, it appears shareholders have spoken. Kansas City Southern recently announced it has officially endorsed the CN acquisition bid of US\$33.7 billion. As part of the deal, CP will reimburse the \$700 million breakup fee KSU will need to pay CP to push this deal forward. CN will pay \$200 in cash and the rest in shares.

Now, since this deal has been done, CN's stock price has understandably taken a hit. This is the case in most takeover scenarios. The target company increases to the acquisition price (or thereabouts). And the acquirer typically sees its stock price fall, usually in proportion to the premium paid to acquire the target.

CN's stock price has fallen approximately 15% from its April peak on news of this bid. Accordingly, investors have seen roughly \$16 billion of market capitalization wiped away in just a few weeks. Shares of CN can now be had at a market cap around \$89 billion, a price which could be lucrative for long-term investors who believe this deal is a positive over the long haul.

For investors who believe this deal is likely to create some significant lasting synergies, this discount may appear lucrative. Indeed, this combination will create the first North American railroad spanning

Canada, the U.S., and Mexico. There's a lot of potential value to be unlocked with this deal.

## Bottom line

While I view this combination as excellent potential value for long-term shareholders, risks do exist. This deal will ultimately need to pass regulatory hurdles. While KSU did state that regulators were generally on board with the deal, it's a big one. Accordingly, investors will have their eye on how the approval process goes with this deal.

Indeed, this is a massive shakeup in an otherwise incredibly stable sector. Investors have an intriguing deal to price today. It will be interesting to see how CN's stock price does from here. That said, I think upside is more likely than not right now.

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1. Cannabis Stocks
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### 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)

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