This $33.6 Billion Mega-Merger Is a Big Win for Canadian Investors

Description

The **Kansas City Southern** (KSC) takeover saga is over. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) won the bid to acquire the U.S. rail operator to the dismay of the **Canadian Pacific Railway**. The two Canadian companies locked horns in a hotly contested race to create the first railway that spans Canada, the United States, and Mexico.

On May 13, 2021, the KSC board announced that it has accepted Canadian National's proposal, because it was a "company superior proposal." Also, KSC will terminate the March 21, 2021, merger agreement with Canadian Pacific. The latter's offer was short of $4.6 billion.

Premier railway for the 21st century

While Canadian Pacific Railway was unable to make a new offer, KCS will pay a termination fee. However, a wholly owned subsidiary of CNR, however, will reimburse KCS the amount of $700 million for the expense payable to the original suitor. Now, the combined American-Canadian company can build the premier railway for the 21st century.

Robert Pace, CNR's chairman of the board, said, "We are the better bid, better partner, better railway, and best solution for KCS, and are pleased that the KCS board of directors has recognized the superiority of our proposal." For CNR's president & CEO, JJ Ruest, the decision of KCS recognizes the many compelling benefits to partner with CNR.

Ruest added that KCS is confident that CNR can obtain the necessary approvals and close the transaction successfully. The goal is to seamlessly connect ports and rails in the U.S., Mexico, and Canada. Besides the enhanced competition from superior service, there'll be new market access to move goods across North America safely and efficiently.

Unique opportunity to grow together

According to Rob Reilly, CNR's chief operating officer, the mega-merger presents a unique opportunity for KCS and CNR to grow together. He said the simple premise of the union is to make the overall economic pie bigger. It would convince more shippers to use the trains if KCS and CNR were to unite.

Likewise, the combined networks would result in a unique transportation system. The railway will run from Canada to Mexico from the Atlantic to the Pacific. KCS will be at the centre of it all. Furthermore, the merged companies will be the only transcontinental railroad that should benefit from the untapped opportunities following the creation of the United States-Mexico-Canada Agreement (USMCA) on trade.

Revenue booster

The business combination can offer American, Canadian, and Mexican shippers nothing but speed, simplicity, reliability, and safety. Reilly said new, faster, and more direct services will be available. CNR hopes to win over companies that use barges, trucks, or other less-direct railroads. If successful, it will boost revenues and open more opportunities.

Railway operation is a toll-booth business for economies in North America. For as long as CNR can effectively manage the operations, it could generate profits regardless of the economic environment. The $90.81 billion company is a leading supply chain player. Its railway network transports about 300 million tonnes of cargo worth $250 million annually.

Excellent long-term hold

While the dividend yield is a modest 1.91%, CNR is an excellent defensive stock for long-term investors. Canadians can expect the current share price of $128.97 to appreciate consistently in the long run. The partnership with KCS gives the industrial stock a competitive advantage.

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