



## 2 Undervalued Stocks to Buy Now and Hold for 40 Years

### Description

Cheap stock are tough to find in the **TSX** these days, but investors still have a few options that look [undervalued](#) and should deliver strong returns in the coming years.

### Canadian National Railway

**CN** ([TSX:CNR](#))([NYSE:CNI](#)) is Canada's largest railway with tracks that connect ports on both the Pacific to the Atlantic coasts. The rail network also extends through the United States to the Gulf of Mexico. The system is unique in the North American rail industry and provides CN with a wide moat. That's good news for buy-and-hold investors who want to own sector leaders that can deliver steady growth for decades.

CN is in the process of buying **Kansas City Southern**, a U.S.-based railway that would add key connections to Mexico. The company outbid its Canadian rival to buy Kansas City Southern. CN is paying US\$30 billion for the company, which is 20% more than amount the **CP Rail** had agreed to pay before CN got involved.

As trade expands between Mexico, the United States, and Canada, CN should benefit. Whether or not [the deal](#) will clear regulatory scrutiny is yet to be seen. Analysts think CN might not get approval. The market appears skeptical, and pundits say the debt load CN will carry after the takeover makes the stock a riskier bet. To address regulatory issues, CN intends to sell a small section of its existing network that overlaps the Kansas City Southern lines. Management remains confident the deal is good for shareholders. CN anticipates roughly \$1 billion in annual EBITDA synergies from the combination of the two companies.

CN's share price is down to \$133 from \$148 in April. Ongoing volatility is expected until the deal is approved or derailed. Regardless of the outcome, the stock looks cheap for a buy-and-hold portfolio. CN has a great track record of generating strong free cash flow, and investors have enjoyed solid returns since the company went public in the mid-1990s.

# Pembina Pipeline

**Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) in on a buying spree.

The company recently made headlines with its bid to buy **Inter Pipeline** for \$8.3 billion. Assuming the [deal](#) goes through, it would create one of Canada's largest energy infrastructure companies with an enterprise value of more than \$50 billion. The result would be a full-service, diversified, and integrated midstream operator catering to natural gas, gas liquids, and oil producers. Pembina Pipeline anticipates a boost to cash flow as a result of the deal and plans to hike the monthly dividend by a penny, or nearly 5%, to \$0.22 per share on closing.

Pembina Pipeline is partnering with a First Nations group to develop the Cedar liquified Natural Gas (LNG) project in Kitimat, British Columbia. In addition, Pembina Pipeline just revealed it has formed a partnership called Chinook Pathways that will attempt to buy Trans Mountain from the federal government once the pipeline expansion is completed.

Investors might be concerned that Pembina Pipeline has a lot on its plate, but the company has a 60-year history of successful growth through takeovers and development projects. Those who buy the shares at the current price near \$39 can pick up a 6.4% dividend yield. As the energy sector continues its recovery, Pembina Pipeline should see the share price move back to the 2020 high of \$53.

## The bottom line

CN and Pembina Pipeline are both targeting large deals to boost growth today, and investors should reap the long-term rewards. If you are searching for undervalued stocks to put in a TFSA or RRSP portfolio, these names deserve to be on your buy list.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:PPL (Pembina Pipeline Corporation)

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