



Buy Alert: CN Rail Is Undervalued Pre-Merger

Description

The recent tug of war between Canada's largest railroad companies **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway** has been the talk of the town for some time. As CN inches closer to sealing the deal with **Kansas City Southern**, the potential merger is gathering a lot of steam among investors.

Here's what many investors have their eye on right now with respect to this merger.

Could the lucrative takeover bolster analysts' opinion of CN Rail?

CN has [proposed acquiring KCS](#) for a massive US\$325 per share in cash and stock. In its proposal, CN stated that the deal could boost earnings per share in the first year itself after closing the deal.

Indeed, any accretive deal is a good thing for investors in the acquirer.

Fortunately, the board of Kansas City Southern seems to be in favour of this proposition. Shareholders recently voted in favour of the deal. Thus, the regulatory review process is all that's left from making this intra-continental railroad a reality.

Indeed, some analysts think CN is undertaking a lot of financial risk with this deal. Then again, others think that the favorable risk/reward setup could work out for investors in this company.

In the last five weeks, CN's valuation has taken a substantial hit. Accordingly, this stock is trading at a lucrative discount to levels it was trading at earlier this year. For this reason, the analysts at **CIBC** World Markets have upgraded it from a neutral rating to an outperformer. This stock's P/E multiple has contracted by nearly three points and is trading at 19 times earnings right now.

Though CN Railway is trading below S&P 500, its valuation is entirely detached from its overall fundamentals. Indeed, analysts and seasoned investors think the current valuation is a good entry

point.

Bottom line

If this deal ultimately falls through, CN shareholders could see a significant revaluation higher. This would be bullish for investors.

While I think the likelihood of this happening is slim, it's something to consider.

But if the deal goes through, I think any downside risk with respect to this deal is already more than fully priced in. Accordingly, I think investors are getting all the upside of a Canada-U.S.-Mexico railway for a discount presently.

This presents a unique buying opportunity for long-term investors bullish on the North American economy. With a new USMCA deal in place, there's a tonne of potential for a railroad spanning all three countries. And CN will be the first.

These opportunities don't come around every day. However, when they do, long-term investors profit from these deals by holding steady.

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Date

2025/08/14

Date Created

2021/06/12

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