



## 3 Reasons to Buy Canadian National Railway Stock Now

### Description

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) saw its share price drop in recent weeks, but the pullback should be a great opportunity to buy CN stock.

### Acquisition distraction

CN made headlines when it outbid **CP Rail** to buy **Kansas City Southern**. Terms of [the agreement](#) include CN paying Kansas City Southern the US\$700 break fee it had to give CP Rail for backing out of a US\$25 billion-plus debt takeover agreement. CN is paying about US\$33.6 billion, including US\$3.8 billion in debt to acquire the railway.

The 20% premium to the CP bid has analysts wondering if CN might be paying too much for the business. The added debt load could limit the size of dividend hikes in the next few years and would likely mean diverting excess cash flow to pay down debt rather than buy back shares.

There is also a risk that regulatory officials could block the takeover on competition concerns. If that turns out to be the case the US\$700 million break fee plus all other related costs would be lost. That money could have gone to CN shareholders. Ongoing volatility in the stock might be on the way in the coming weeks or months until the outcome of the situation becomes clear.

Investors should view the dip in the share price as a buying opportunity. CN trades near \$134 at the time of writing compared to \$149 before the deal was announced. Regardless of whether CN succeeds, or is forced to give up the takeover, the stock appears [undervalued](#) today for a buy-and-hold portfolio.

### Economic growth

CN is already a key component in the smooth operations of the Canadian and U.S. economies. The company is the only railway with links to ports on three coasts, connecting the Atlantic and Pacific in Canada to the Gulf of Mexico in the United States. Kansas City Southern would add strategic links to

Mexico.

Stimulus efforts should help drive robust economic expansion in North American over the next few years. CN transports a wide range of goods from cars, coal, and crude oil, to forestry products, grain, fertilizer, and finished consumer goods. The diversified business units provide a balanced revenue stream. When one segment hits a rough patch the other divisions tend to pick up the slack.

CN generates strong profits and uses the cash flow to invest in the business while also rewarding shareholders with rising dividends.

## Returns

CN has delivered great returns for patient investors and that trend should continue. Past performance is no guarantee of future gains, but it tends to be a pretty good guide. Buying CN on the dips over the past 25 years has proven to be a profitable strategy.

A \$10,000 investment in the stock 25 years ago when it went public would be worth roughly \$450,000 today with the dividends reinvested.

## The bottom line on CN stock

Investors currently have a great opportunity to buy one of Canada's best stocks at a discount. While the additional near-term downside could certainly be on the way, any pullback in CN's stock price should be viewed as a chance to add to the position.

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aswalker

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