



Why CN Rail Stock Looks Cheap Right Now for Long-Term Investors

Description

In today's market, the search for value is on. Indeed, valuations of portions of the stock market are at eye-watering levels. And railroads haven't been spared from this multiple expansion of late. However, investors in **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) have a lot to like about CN Rail stock right now.

Here's why I think CN Rail shows some signs of being [undervalued](#) in this market right now.

CN Rail stock shows fundamental value

The traditional way of analyzing stocks, using [fundamentals](#), may be too old-school for new-age investors who have made fortunes in meme stocks. However, investing on the basis of cold, hard data is a time-tested way of getting rich slowly.

For those interested in such an approach, CN Rail's fundamentals look noteworthy right now.

The company's valuation multiple has come down substantially of late. Most of this decline is tied to the company's offer to acquire **Kansas City Southern** in a massive deal. However, the real question investors ought to be asking with CN Rail stock right now is, is the market overreacting to this acquisition bid?

CN Rail stock has sold off approximately 10% since the company announced its acquisition bid. This decline factors in the premium the company paid to acquire KSU, and then some. Indeed, the company is trading at a forward earnings multiple of 20 times, despite the likely enhancement of earnings as a result of synergies stemming from this deal.

In the railroad space, CN Rail is now one of the more attractively priced options, given its growth potential. For those betting on some real growth resulting from this mega-merger, now is the time to consider CN Rail stock.

Bottom line

As a result of the merger with KSU, Canadian National will be the only railroad spanning Canada, the U.S., and Mexico. That's a big deal. With a new USMCA deal paving the way for tariff-free exports on most goods, investors in CN Rail stock stand to benefit greatly from this merger.

My take on CNR is that this is a stock to be held over the long term. Indeed, those bullish on the strength of the North American economy will want to place their bets on a company like CN. This is a great way for investors to gain leverage to the economic reopening trade, while retaining a stable core holding.

On top of these great catalysts, CN Rail also provides investors with a small, but growing, dividend. Currently, CN Rail stock yields 1.9%. That's good enough for me.

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Author

chrismacdonald

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