



Buy CN Rail Stock Because it Won't Stay This Depressed for Long

Description

CN Rail ([TSX:CNR](#))([NYSE:CNI](#)) is one of those wide-moat stocks that you can buy on the dip and hold over the [long haul](#), regardless of the circumstances. It's tough to match the width of CN Rail's moat. And once the **Kansas City Southern** deal goes through, I'd argue that CN Rail will have the widest moat on this side of the border. Undoubtedly, investors have their fair share of concerns over the sticker price paid to steal **CP Rail's** sought-after prize.

While US\$34 billion is a high price to pay, I think that it's not pricey as most think, at least over the longer term. Why? The macro backdrop couldn't be better, with the North American economy poised to bounce back abruptly from the COVID-19 crisis.

Don't discount those promising long-term catalysts!

The so-called Roaring 2020s environment and a reinvigorated USMCA (the old NAFTA) could spark a pick-up in cross-border freight volumes. The lifting of tariffs across a wider range of goods will be a win-win-win for Canada, the U.S., and Mexico, and a massive win for CN Rail, which is slated to be the only railway to span the three major North American countries — an enviable title that's unlikely ever to be challenged.

Who knows? In three years, we could be looking back at the US\$34 billion price paid for KSU as an absolute steal and wondering why we didn't pick up more shares on the post-acquisition dip.

Fellow Fool contributor Chris MacDonald believes CN Rail will "benefit greatly" from the big rail merger that could be one of the last in North America.

"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." [MacDonald wrote](#). "My take on CNR is that this is a stock to be held over the long term."

He's right. The KSU sticker shock will, in due time, fade. And it'll be long-term investors who will come

out on top, as KSU's assets fall into much better hands.

There's no question that integrating new rail assets will come with some risk, but I think you've got to give CEO J.J. Ruest and company the benefit of the doubt. CN Rail is known by many as North America's most efficient railway for a reason, and I believe they'll prove the doubters wrong in a big way.

The bottom line on CN Rail stock

It'll take some years, but I think the company will see its US\$34 billion KSU acquisition pay off, as it becomes more apparent that KSU is better under CN's hands than on its own. In such a scenario, CN Rail stock could command an even more premium price tag for its widening moat.

Just how high a premium? It's probably higher than where the stock is currently trading after its brutal 13% correction. The stock trades at 26.2 times trailing earnings alongside a bountiful 1.9% dividend yield. Given the favourable macro backdrop, I'd argue that CN Rail shares ought to be worth much more.

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