



## Rail Stocks Under Pressure: Time to Buy CN or CP?

### Description

**CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) and **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) are wide-moat [kings](#) that are forces to be reckoned with. Whenever each firm takes a bit of a spill, buying the dip is typically a pretty wise move, at least over the long term.

Of late, though, the entire rail industry has been rattled, especially CN and CP, both of which went duking it out for the right to acquire **Kansas City Southern** earlier in the year. CN ultimately beat CP with its rich bid of around US\$34 billion. After CP refused to sweeten its offer, CN was supposedly to walk away with the incredible rail assets that would have given the firm an unbelievable moat and access to the two major borders in North America.

Investors over at CN Rail did not like the deal, and for good reason. The price was not only rich, but borderline obscene. I gave CN's managers the benefit of the doubt, though. So too did long-time CN shareholder Bill Gates through his firm Cascade Investments, which gave management a thumbs-up on the deal.

The CN-KSU combination took a massive toll on CN stock, also causing ample volatility in CP through the early innings of the first half of the year. CN stock took a brunt of the damage, plunging over 16% from peak to trough before bouncing back modestly and sagging into the summer. It's been a rough ride for CN shareholders, and the pain probably isn't over just yet. Regardless, I've been pounding the table on CN stock on the dip over KSU acquisition concerns.

## Joe Biden adds another layer of uncertainty for the rails

Most recently, U.S. president Joe Biden sent [major shockwaves](#) through the entire rail industry, causing immense pressure on KSU stock in particular, which plunged nearly 8% in a day.

Biden's executive order may very well jeopardize the CN-KSU merger. While CN stock held its own rather well immediately following the news, shares eventually started retreating again. Why? Investors seem to hate all the uncertainty following CN and its potential takeover. If the historic rail deal is blocked, CN Rail may have to take a slap on the wrist. And if it's approved in spite of Biden's orders

and his desire to bring forth greater competition in the freight transportation arena, CN Rail stock may very well continue sagging.

Sadly, it seems like a lose-lose proposition for CN, at least through the eyes of shareholders. As most others hit the sell button, though, I'd be an aggressive buyer. CN stock has been a massive underperformed lately — down 9% over the past six months, thanks primarily to acquisition uncertainties.

At the end of the day, CN Rail is a wonderful rail that could really crush the TSX, as the economy really starts to take off. Given this, CNR stock looks dirt cheap, regardless of what happens with the CN-KSU deal, which, I believe, may find itself up in the air.

## What about CP Rail stock?

CP Rail stock is down just shy of 8% at the time of writing. Sure, the company lost a great prize in KSU, which would have been the perfect fit for the firm. While an approved CN-KSU deal would bring forth additional competitive pressures, I think that coming industry tailwinds will overpower any such pressures. As such, CP Rail is also a great buy in my books, especially if shares were to fall into a correction (10% peak-to-trough decline) over the coming weeks.

## So, CN or CP stock?

I'd buy both here. But if you can handle choppy moves, I think there's a bit more value to be had in CN stock here. It's been a relatively weak first half of 2021 for CN and CP, but don't expect more of the same in the second half.

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