



CN Rail Soars 8% and CP Rail Sags 5%: Which Is the Better Buy Now?

Description

Don't look now, but it's off to the races for shares of **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)), which soared around 8% in Tuesday's trading session on news that its voting trust bid for **Kansas City Southern** (NYSE:KSU) got rejected.

Undoubtedly, U.S. rail regulators were more concerned with CN Rail's pursuit of KSU, given its massive size relative to the likes of **CP Rail** ([TSX:CP](#))([NYSE:CP](#)). Such a deal would have made one of North America's most dominant railways that much more dominant, and given U.S. president Joe Biden seeks to foster competition, it's not a mystery that the CN-KSU bid was given the red light.

The battle of the Canadian rails takes a swift turn

In numerous prior pieces, I'd highlighted the likelihood that CN Rail would never end up acquiring KSU as a result of higher regulatory hurdles and that shares would "correct to the upside" once the deal showed signs of falling through. Undoubtedly, that's what happened on Tuesday, with CN Rail [blasting off](#), while CP Rail sagged as low as 5% before finishing the day down 4.6%.

"I find CN Rail's current valuation to be ridiculously low. The stock is priced as though it has already walked away as the winner from the bidding war, when in reality, CP Rail may get the deal it wants at close to the price it wants." I wrote in a [prior piece](#), urging investors to buy CNR stock on the dip.

Indeed, CP Rail looks like it's poised to become the winner of the industry's largest bidding war in years. And with that, a very hefty price tag of US\$27 billion. Undoubtedly, nothing is official yet, but at this juncture, it seems like CP Rail investors could be in for further pressure as the hefty price tag is likely to eat into any potential synergies.

Should you buy CN Rail on strength or CP Rail on weakness?

After Tuesday's big day, CP Rail stock is now down 13% from its all-time high, while CN Rail is flirting with its own all-time highs. It's clear that shareholders hate the price tag for KSU, and I can't really

blame them. Across the board, valuations have swelled and to pay a premium on top of a swollen valuation, I believe, creates a chance that shareholder value could take a hit. Just how much shareholder value could be wiped out? That's the million-dollar question. In any case, I'm continuing to stand by CN Rail, as it picks up where it left off before trying to one-up its peer.

Although I'm no fan of chasing a name that's run-up over 15% in just a few weeks, I still see ample value in CN Rail stock, as it's still at the level it was in October 2020. With freight volumes likely to pick up and room to improve upon its operating ratio (OR) after a brutal COVID-plagued year, I'd look for CN Rail stock to break out to new all-time highs, as investors breathe a sigh of relief that their firm won't have to pay-up hand over fist for a costly rail deal.

Meanwhile, CP Rail could find itself stuck in a rut in the mid-\$80 range for the next several months, as investors digest the likelihood of a CP-KSU deal.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date

2025/07/04

Date Created

2021/09/01

Author

joefrenette

default watermark

default watermark