



## CP (TSX:CP) Stock Wins Kansas City Bid! Here's What Investors Should Know

### Description

It's official. Over the weekend, **Kansas City Southern** (NYSE:KSU) accepted **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) \$31 billion offer. The cash-and-stock acquisition beat out [top rival Canadian National Railway](#) (TSX:CNR)(NYSE:CNI). Shares of CP stock have fallen 4% since last week, and CNR stock is down 6% in the last week as of writing. But is it all over?

### What happened?

The United States's Surface Transportation Board (STB) became the tie breaker in this battle for the ultimate North American railway. The STB stuck to its guns, declaring CP stock the clear choice. CNR stock now has until Friday to submit a better offer or lose the deal entirely. However, given that its offer before was already much higher than CP stock's, it looks like the STB won't be changing its mind, so neither will KCS.

### So what?

This deal is huge. The winner of the KCS deal would create the first direct railway line that would link Canada to the United States and down to Mexico. Future investors are likely to see a massive increase in shares and revenue from the deal, whichever side it lands on.

However, it's clear why some investors are simply unhappy with the deal. It's more than just a touch expensive. Hedge fund TCI management pressured CNR stock to abandon the deal. It would simply put [too much stress](#) on the company. In fact, the leader of the fund, Chris Hohn, launched a bid to oust CNR chairman Robert Pace, CEO John-Jacques Ruest, and other directors, stating the deal was set up to fail from the very beginning.

Meanwhile, it stands to gain a lot of cash from the break up. CNR stock would receive US\$700 million as a break-up fee and then another US\$700 million that it paid early to convince KCS to pass on the CP stock deal. So, a total of US\$1.4 billion could be coming the company's way.

CP stock, meanwhile, became the winner (for now) thanks to no rail overlap. CNR stock has parallel lines that operate over a central portion of the United States. So, CP stock would make far more sense in that vein.

## Now what?

CP stock will have to pay out this heavy bill. And while it's less overall than the CNR stock deal, the company does get a \$300 per share in cash and stock. That's higher than the \$275 per share cash and stock originally declared by the railway companies in March. So, shares have started dropping, as investors know that in the near future, CP stock is likely to have to start putting revenue in other areas besides its dividend.

So, these rail stocks will likely continue to be part of headlines for at least this week. We'll either get another bid from CNR stock this coming Friday, or perhaps management will call it quits. We have yet to hear from the company on either side as of writing.

But long-term investors should note: true, the deal is expensive in either case. However, this new line goes through heavy agriculture and oil services in the United States. The revenue coming from this deal will be massive. So, pay attention. There's a reason both companies have been fighting so hard.

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