



Railway Saga Twist: Canadian Pacific (TSX:CP) Is the Likely Winner

Description

The recent [bidding war](#) for **Inter Pipeline** had a surprising outcome. **Pembina Pipeline** almost had the deal in the bag, but **Brookfield Infrastructure Partners**, the original suitor, eventually won the prize.

On March 21, 2021, **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) offered to acquire **Kansas City Southern**. A month later, **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) entered the picture with a higher bid. Despite assurances by the original suitor that its offer was a sure path to regulatory approval, the American railway operator favoured CNR's offer.

The second bidder thought it had sealed the deal. On August 31, 2021, the U.S. Surface Transportation Board (STB) rejected CNR's voting trust proposal to acquire KSC for \$29 billion. Like the battle in the energy sector, the tide has turned to the side of the original suitor. Now, CP could eventually emerge as the winner in the railway saga.

What's the battle all about?

CP and CNR locked horns because the merger with KSC would pave the way for creating the first rail network that spans Canada, Mexico, and the United States. Apart from its higher bid, CNR was willing to match the terms of CP's offer. The [larger Canadian railway operator](#) started the regulatory approval process swiftly.

However, rival CP, through its CEO Keith Creel, said no higher bid was forthcoming. The company will not raise its bid because the CNR's offer wasn't a real deal. He adds that management won't put CP's balance sheet at risk.

Spillover of the bidding war

CNR was almost sure it could obtain regulatory approvals for the KCS deal. A U.S. lawmaker warned of serious repercussions if the CNR-KCS transaction pushes through. A railroad consolidation would be detrimental to the U.S. economy and its workforce. KCS's board maintained that the CNR offer was

a superior proposal.

The bidding war spilled over to freight rail customers, logistics companies, and even grain shippers. Parties took sides in the railway takeover.

Turn of events

The U.S. Department of Justice said CNR's bid started to crumble when the U.S. U.S. Department of Justice said the deal appears to pose greater risks to competition than the original proposal. CP said there was no basis for KCS to terminate their agreement. CNR agreed to divest KCS 70-mile rail line or the overlap between the two railway operators.

Unfortunately for CNR, the axe fell on August 31, 2021. The STB unanimously voted to reject the CNR-KCS deal on grounds that the proposed use of a voting trust does not meet the standards under the current merger regulations. On September 11, 2021, the KCS board of directors rejected the merger with CNR.

In a statement, KCS said STB's decision is the right one for rail shippers, the freight rail industry, and the North American economy. CP praised the outcome, saying the combination best serves the public interest, preserving and enhancing customers' competition. It would also result in a stronger North American rail network.

Merger talks ongoing

Talks started between CP and KSC, and CNR is now out of the picture. On the [TSX](#), CNR shares rose following the STB decision, while CP remained flat. However, the merger is one reason analysts forecast a return potential of 17.81% for CP. Its share price could climb from \$86.91 to \$102.38.

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