



## Why CNR (TSX:CNR) Stock Jumped Over 5% on Wednesday

### Description

It's over.

The battle between Canada's two dueling railway duopolies finally came to a conclusion on Wednesday. **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) officially informed **Kansas City Southern** (NYSE:KSU) it would not be making another bid for the rail line. This leaves **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)) as the winner for the bid. Shares of CNR stock climbed 5% at the news as of Wednesday morning. Shares of CP stock remained flat, as did KCS stock.

### What happened?

KCS stock [said Monday](#) it would be going forward with the \$31 billion bid from CP stock. However, it gave CNR stock until Friday to come up with a counteroffer. On Wednesday morning, CNR stock management said in a statement it provided notice of termination of the merger agreement. CNR stock will receive US\$1.4 billion in termination fees, however, although it loses the takeover battle that would see its rail span from Canada to Mexico.

This comes off the heels of the U.S. Surface Transportation Board (STB) rejecting the agreement last month. While at first KCS stock fought to go ahead with the higher deal from CNR stock, on Sept. 12, the company acknowledged CP stock's proposal was the better option.

### So what?

CNR stock shares are [climbing](#), while CP stock remains flat. But long-term investors should be excited. The new deal makes CP stock the first railway line to stretch from Canada through the United States and into Mexico. It gives it access to agriculture and oil routes to increase revenue. In fact, it enlarges the railway by 20,000 miles — a boost of 50%!

And it was more than just the STB that didn't like the CNR stock deal. TCI Fund Management also stated they didn't like the deal from the start. In fact, the CEO looked to oust the executives of CNR

stock should the deal continue.

“While we are disappointed that we will not be able to deliver the many compelling benefits of this transaction to our stakeholders, the decision to bid for KCS was a bold and strategic move that still resulted in positive outcomes for CN,” President and CEO JJ Ruest said in a statement. “CN will continue to pursue profitable growth and opportunities for excellence as a leading Class I railroad, and we look forward to outlining more details on our strategic, operational and financial priorities in the near future.”

## Now what?

It's not completely over for CP stock, though it looks like CNR stock can now focus on new initiatives. CP stock and KCS stock must now receive approval from shareholders, Mexican regulators, and again from the STB.

While the initial price is steep at \$31 billion — including KCS stock's debt of \$3.8 billion — CP stock expects to create annual synergies of about \$1 billion in three years. The deal represents of premium of 34% on KCS stock at \$300 per share.

As for CP stock? The numbers are staggering. Right now, shares trade at \$88 per share. The *average* potential upside in a year's time is worth a whopping \$313! That's a potential upside of 256% as of writing! Meanwhile, CNR stock may fall by about 21%. Meanwhile, you can take advantage of the dividend yield from CP stock of 0.88% as of writing.

“Our path to this historic agreement only reinforces our conviction in this once-in-a-lifetime partnership,” said CP president and CEO Keith Creel. “We are excited to get to work bringing these two railroads together. By combining, we will unlock the full potential of our networks and our people while providing industry-best service for our customers.”

## CATEGORY

1. Investing

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

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