



2 Canadian Railway Giants Are Moving in Opposite Directions

Description

An acquisition can be a tricky business, especially when there are too many legal and official hurdles that a company has to go through. And the problems don't always come from outside. Sometimes, shareholders and entities within the fold can also cause erect barriers and prevent an acquisition from going through smoothly.

And it becomes difficult for one company to acquire another when it's facing both regulatory hurdles and internal opposition. That's what's happening with **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) right now. [The railway giant](#) is trying to acquire U.S.-based **Kansas City Southern** for \$30 billion, but the U.S. Surface Transportation Board has created a hurdle by rejecting the use of a voting trust agreement for the acquisition.

Soon after this rejection, one of CNR's shareholders, a London-based fund manager that owns over 5% of the company, has not only urged the railway to back down from the acquisition but has also requested a CEO resignation and some changes in the board of directors.

Canadian Pacific ([TSX:CP](#))([NYSE:CP](#)) is next in line for this acquisition and has already offered two deals to the company. The first was for \$25 billion, and the next improved one was for \$27 billion. And now that the CNR is facing challenges, Canadian Pacific's chances are looking relatively better.

The case for Canadian National Railway

As an investor who is considering adding [one or both](#) of the railway giants to their portfolio, how should you perceive the situation? The CNR stock saw an uncharacteristically high spike earlier this month, which catapulted the stock up 15% in three days. But the stock has already started to tumble, so you might consider waiting for the slump to continue.

If the deal really *is* dead and, even more importantly, if Canadian Pacific manages to snatch KCS away from CNR, the company might see stock slump down even farther. You will have a chance to bag an old Dividend Aristocrat at a discounted valuation that's offering a relatively better yield.

The case for Canadian Pacific

CP hit its yearly peak in late May/early June and has been slowly sliding down ever since. The news of CNR's deal dying and CP being in the run wasn't enough to boost the stock's valuation, so if you are anticipating a spike, you might have to wait for the deal to actually go through.

The stock is almost as expensive as CNR, but it also offers a significantly higher and relatively more consistent capital growth potential. The deal might make the company heavier financially, and the prospect of the new business and competitive edge it will offer has the potential to add to CP's capital appreciation potential.

Foolish takeaway

Earlier, CNR might have been a stronger contender in this race, but now the situation favours CP. Both railway giants are now moving in the opposite direction of where they were a few weeks ago. Still, both are great [growth stocks](#), and if you are planning to hold on to them for decades, the spike or slump that might result when the deal is finally sealed might be inconsequential to your overall long-term gains.

CATEGORY

1. Dividend Stocks
2. Investing

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

adamothonman

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