Buy or Sell? 2 Top TSX Stocks That Lost Monster Deals in 2021

Description

Two prominent Canadian firms figured in a bidding war for monster deals recently. **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) thought it had **Inter Pipeline** in the bag but eventually lost to **Brookfield Infrastructure Partners**. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) was confident it could steal **Kansas City Southern** away from **Canadian Pacific Railway**.

Pembina and CNR were not the original suitors for Inter Pipeline and KCS. However, they felt there was a fighting chance because the original bids were hostile. The pipeline giant had to let go after an advisory firm said the Brookfield offer was far more advantageous. CNR had to back off after a U.S. regulator deemed its bid detrimental to the railroad industry.

So how have the respective stocks performed after the futile attempts to win monster deals? Should investors include them in their buy or sell lists?

Strong growth momentum

Since Inter Pipeline walked away from the deal on July 26, 2021, Pembina shares declined by only 1.6%. At $40.08 per share, the energy stock still boasts a 38.8% year-to-date gain. The dividend yield remains high at 6.29%. Meanwhile, Inter Pipeline (+70.67%) outperforms Pembina, while Brookfield Infrastructure is up by 15.16%.

I don't think investors will lose interest in Pembina Pipeline. The $22.05 billion pipeline operator is a Dividend Aristocrat for raising its dividends for 21 consecutive years. Furthermore, the dividend payments are monthly, not quarterly. Your investment should grow faster if you keep reinvesting the dividends.

Pembina CEO Mick Dilger said the business combination with Inter Pipeline would have been unparalleled in the industry. While management was disappointed with the outcome, Pembina received a $350-million in break fee. Nonetheless, Pembina doesn't lack growth catalysts moving forward.

The Alberta Carbon Grid project for carbon capture, utilization, and storage (CCUS) is a joint venture with **TC Energy**. Pembina obtained 50% ownership in Haisla Nation's Cedar Liquefied Natural Gas (LNG) export project on the Northern Pacific coast of British Columbia. It also forged a partnership with the Western Indigenous Pipeline Group to own the Trans Mountain oil conduit.

New strategic plan

The U.S. Surface Transportation Board (STB) put its foot down on CNR's bid for KCS on August 31, 2021, dashing all hopes of creating the first railway network that spans Canada, the United States, and Mexico. Canadian Pacific Railway will now have the crack at it.

Regarding the stock performance, CNR shares gained 1.7% since the STB rejected its bid for KCS. At $150.32 per share (+8.8% year-to-date), the dividend offer is 1.64%. In the last three years, the industrial stock has returned 39.47% (11.68% CAGR).

Following the setback, British-based investor U.K.-based TCI Fund Management wants changes at CNR, including a proposal to replace its current CEO. Meanwhile, management announced on September 17, 2021, that CNR has a new strategic plan.

The plan's objectives are to reduce capital spending (17% of revenue) in 2022, increase operating income to $700 million, and boost efficiency (57% operating ratio). CNR CEO Jean-Jacques Ruest, said, "We feel comfortable with the targets that we have, I'm confident about the team, I'm very energized about doing it."

Better buy

Pembina Pipeline and Canadian National Railway are still smarting from their failed attempts to win monster deals. However, I would buy the energy stock and sell the industrial stock if given a choice.

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