CNR Stock: Is a Shakeup Coming Post-Earnings?

### Description

**Canadian National Railway** (TSX:CNR)(NYSE:CNI) reports its third-quarter earnings this afternoon. Investors wonder whether the company will be able to meet estimates. However, after the incredible drama last month, a new report caused a stir before CNR stock released its report.



## What happened?

TCI Fund Management came out with a report the day before CNR stock was set to release its earnings report, which it restated Tuesday morning. TCI announced a "strategic plan" that would put CNR stock "back on track." The main goal? to "change" CNR stock's board of directors, which would include a new chief executive officer. In their place, TCI proposes to replace the board with several nominees and new CEO candidate Jim Vena, former CEO of **Union Pacific**.

The catalyst for this report (besides the earnings report), of course, is the failed deal to acquire **Kansas City Southern**. TCI accused CNR stock of not understanding the railroad industry and regulatory environment. It was "committing billions of dollars to an ill-conceived pursuit of an unattainable asset." TCI believes a new board would help the company be "better rather than bigger."

Further, it has outlined a full plan to achieve long-term and sustainable growth, so it says. Much of this plan will involve investing in the network and technology to create a lower-cost, low-carbon, high-efficient railway that would attract more business.

## So what?

TCI is a huge investor in CNR stock, so it's clear that if the company believes a shakeup is needed investors should take it seriously. However, TCI did not identify too many issues outside of the failed KCS deal. While it does list asset sales, share buybacks, and head count reductions as other reasons for a shakeup need, the main problem remains a deal that never went through.

Of course, the proposed board does have plenty of experience, both in railway and trucking. But such a shakeup would certainly create some questions among shareholders. Most importantly, with a new board, it would basically be an entirely new company. And that may not be such a good thing.

And it's not as if the company hasn't been doing well otherwise. CNR stock can still claim to connect Canada from the east to west coast and even to the southern United States. It continues to top estimates and is likely to top or beat them yet again during today's report.

## Now what?

While TCI identified a few of CNR stock's problems, it didn't really give many details of how it plans to fix them. It instead stated it wants to make the company better and believes it's identified people who can do that. Analysts remained unconvinced given the lack of financial projects in particular that a new board could achieve.

So, it's unlikely such a shakeup will happen. And should a strong earnings report be announced Tuesday afternoon, shares could increase once more — especially now that it doesn't have a major acquisition on the books.

But does that mean Motley Fool investors should buy CNR stock? Perhaps not. Well, at least not right now. Most analysts believe the stock is a hold given the destruction of its recent plans. It's likely to remain in the $150 range for the time being, so shareholders would likely do well to take a wait-and-see approach.



That being said, this is a strong company that will likely continue on for decades to come at least. So, it's definitely one to keep on your watch list.

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alegatewolfe