



## 2 Blue-Chip TSX Stocks Starting to Really Heat Up!

### Description

Blue-chip **TSX** stocks are the type of names that Canadian investors should always consider [buying](#) on a significant pullback, either idiosyncratic or market-wide. While company-specific issues do happen, they typically tend to resolve themselves with time. Still, they feel like game-changers in the heat of the moment.

Take the case of CN Rail ([TSX:CNR](#))([NYSE:CNI](#)) and its bitter bidding war with top rival CP Rail ([TSX:CP](#))([NYSE:CP](#)) for the right to scoop up sought-after U.S.-based railway Kansas City Southern. The deal was a rare one that would have created the first railway to span Canada, the U.S., and Mexico. Essentially, a front-row seat to a new USMCA trade deal was on the line, but the steep price of admission reflected such.

In many prior pieces, I stated that the odds CN Rail would win and merge with Kansas City Southern was incredibly low, given the higher regulatory hurdles it faced. Further, I believed that CN was trying to pressure its top Canadian rival. In any case, shareholders didn't appreciate the volatility induced by the pursuit of a deal that seemed to be CP Rail's to lose. Eventually, CN collected fees for the deal that fell through, and CNR stock finally corrected to the upside, a move I predicted would happen once it became more apparent that CP would walk away a winner in the Kansas City Southern sweepstakes.

## CP and CN: Canadian railway stocks heat up again

The upside pop in CN Rail stock was [remarkable](#), but not surprising. What was surprising was the involvement of an activist investor who called for the removal of CN CEO J.J. Ruest. Indeed, the Kansas City Southern pursuit was confusing, and the performance in the stock up to that time was below average, trailing the markets for 2021. With an underwhelming strategic plan that induced a BMO analyst to slap CN Rail stock with a downgrade, pressure facing CN's management was at a high point.

Today, J.J. Ruest is ready to move over, and CN Rail stock is in a bit of a weird spot as the torch is passed to someone else come the new year. CN Rail stock has been quite a volatile ride, but I do think shares are still undervalued despite the recent upside move.

The stock trades at 24.5 times trailing earnings with a 1.5% dividend yield. That's not exactly cheap, but given the calibre of business you're getting, and the bounceback potential as new management looks to improve upon the hard-hit operating ratio, shares don't look expensive at all, especially on a relative basis!

CN Rail is a great blue-chip stock that could make a return to its old form, regaining the title of North America's most efficient railway, as it moves on from a turbulent, mostly noisy 2021.

Similarly, CP Rail stock also looks like a relative bargain, even after the upside correction in shares following the initial negative reaction to its merger with Kansas City Southern. CP is no longer a small Canadian railway with some U.S. exposure. Over the next decade, it could be in a spot to cash in on a massive volume surge. Of course, in the meantime, synergies are likely to be less pronounced. But for long-term thinkers looking for a great bang for their buck, shares of CP look like a decent buy at 20.4 time trailing earnings.

## Bottom line on the two blue-chip TSX stocks

Canada's top railways are the bluest of blue chips. Right now, they're looking quite cheap in an expensive market. I wouldn't hesitate to pick either up on their latest rallies, as they're still not as expensive as most other high-calibre names out there.

### CATEGORY

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