



CP Rail Is on the Growth Track, But I'm Not Buying the Stock Over CN Rail

Description

Shares of **CP Rail** ([TSX:CP](#)) are poised to kick its growth into high gear over the coming years following its acquisition of Kansas City Southern. Undoubtedly, CP Rail found itself in a bitter bidding war with its Canadian rival **CN Rail** ([TSX:CNR](#)).

Ultimately, CP walked away as the winner without having to sweeten up the pot considerably, as federal regulators shot down CN's acquisition hopes. Indeed, CN Rail was already too dominant a railway with its huge presence in Canada and the United States. I'd predicted that CP was likelier to be successful with its deal, and the fact that CP didn't have to pay a great deal more following CN's involvement bodes well for CP shareholders.

Still, the price for Kansas City Southern assets didn't come cheap at US\$31 billion. The deal came at a 34% premium to the market price. Often, overpaying for deals can lead to destruction for shareholders. In the case of CP, though, I think it got a relative bargain, as it's tough to make deals in the rail space, given the amount of regulation out there. Further, it's not like up-and-coming railways are popping up across left, right, and centre like in the tech scene!

CP Rail: Superb managers and a prized new asset could power many years' worth of gains

It's rare to find a rail deal that fits so nicely into an existing network. Indeed, Kansas City Southern appears to be the missing piece to the CP puzzle. CP Rail was a predominantly Canadian railway. Now, it's a true North American railway and the first to span Mexico, the U.S., and Canada. With that will come a huge advantage over rivals.

For now, CP Rail has a lot of work (and [investments](#)) to do to make its Kansas City Southern dealworth it. With Chief Executive Officer Keith Creel at the helm, I also view CP as having exceptionalmanagers. It's been a long time since Hunter Harrison was at the firm, but he's made his mark. Today,CP is one of the best-run rails out there, and that gives me a jolt of confidence as the firm looks tomake the most of Kansas City Southern.

Over the past year, CP has hired thousands of workers ahead of an STB (Surface Transportation Board) milestone. Undoubtedly, CP has had to pass various regulatory hurdles, but it's almost out of the woods, with a decision expected in a matter of weeks.

In any case, CP Rail is ready to go. Once it gets the green light, it may be tough to stop the stock's recent bout of momentum built on the back of recent quarters. Canadian grain shipments are continuing to fuel bullishness on the part of [investors](#). Even with a recession potentially on the horizon, I think CP remains one of the most exciting stories in the rail scene today.

CP Rail: What about valuation?

CP Rail is a wonderful business with magnificent prospects, and a management team that knows how to get the job done. My only concern is with the valuation. At 27.7 times trailing price to earnings, you're paying a hefty multiple.

Meanwhile, CN Rail sports a 21.1 times trailing price-to-earnings multiple. It may not have Kansas City Southern to look forward to. However, it does share the same industry tailwinds that could be fierce on the other side of a 2023 recession. Between CP and CN, I prefer CN due to its more palatable valuation.

I'm not against owning CN and CP. However, I'd much rather opt for the former or wait for a pullback in the latter.

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