



Why CN Rail Stock Could Keep Chugging Along Nicely Into 2022

Description

A high-profile bidding war between **CN Railway** ([TSX:CNR](#))([NYSE:CNI](#)) and rival **CP Rail** has ended, with the former set to acquire **Kansas City Southern**. This deal has resulted in CN Rail stock becoming the stock of choice for many Canadian and international railroad investors.

Why?

Well, as a result of this deal, CN Rail will become the largest intra-continental rail network in North America. CN Rail stock already provides investors with access to the largest railway company in Canada. It comes with a rail network of more than 20,000 miles throughout Canada and the United States. However, this deal will expand CN Rail's capacity to Mexico. Given the recent USMCA deal, investors and analysts have a lot to be excited about with CN Rail stock.

Let's discuss why I think this railroad stock may have a lot more room to run from here.

CN Rail stock could be undervalued

Canadian National Railway shares have taken a hit following the company's massive acquisition offer for KSU. That's normal and to be expected.

However, the question remains as to whether this discount of approximately 10% from pre-offer levels in CN Rail stock is warranted. Indeed, the merged entity will undoubtedly provide investors with synergies over time. Of course, the premium CN is paying to acquire KSU won't go away.

That said, since the acquisition offer, CN Rail's core business has boomed. Commodity exports have shot through the roof. Accordingly, CN Rail has [booked](#) a 14% increase in total freight revenue, over an already impressive (and high) base. These sorts of numbers are typically only achieved in the greatest of bull markets. One could argue that should this trend continue, perhaps CN Rail got a steal with its acquisition offer.

Accordingly, there's a case to be made that CN Rail's timing was solid with this deal.

Bottom line

I think CN Rail stock is one which continues to hold tremendous [value](#). Those who are optimistic about the economic future of the North American economy can't make a more direct bet on economic performance of this region than buying a key railroad such as CN Rail.

Indeed, the fact that this railroad is slated to be the first to span Canada, the U.S., and Mexico is a big deal. Accordingly, I'm of the view that the potential synergies resulting from this deal could provide for meaningful long-term growth in the decades to come.

As with any stock, risks exist. Economic activity could slow, and commodity prices could eventually depress toward the longer-term mean. However, for now, CN Rail stock remains one of the best bets on the market today.

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Author

chrismacdonald

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