TFSA Investors: Does Canadian National Railway Company Deserve to Be a Top Pick?

Description

Low interest rates are driving more Canadians into dividend stocks, and the market is starting to get expensive.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if looks like a solid choice in the current environment.

Earnings

Railway companies are facing some economic headwinds, but CN's profit growth continues to chug along at a steady pace.

The company generated Q1 2016 net income of $792 million, up 13% from the same period last year. That's pretty impressive considering the 4% slide in overall revue.

What's the secret?

CN is a very efficient company and management continues to drive down costs. The operating ratio fell 6.8 points to 58.9% in Q1 as compared with the first quarter last year. That means the company is spending less money to generate each additional dollar of revenue.

The strong U.S. dollar is also helping the numbers. CN earns a significant part of its profits south of the border, and each greenback is currently worth $1.29.

Balanced business segments

CN is literally the backbone of the Canadian and American economies. The company's lines run from coast to coast here in Canada and stretch all the way down to the Gulf of Mexico.

Demand for energy and coal shipments has dropped, but other industries, such as automotive and forestry, are picking up the slack.

A wide moat

TFSA investors are often looking for buy-and-hold names that can form anchor positions in their portfolios for decades. The best stocks to buy in that situation are companies with leadership positions and strong competitive advantages that can't be easily disrupted.

CN is the only rail operator to offer clients access to three coasts, and the odds are pretty much nil that competing lines would ever be built along the same routes.

Dividend growth

One way to build wealth in your TFSA is to buy dividend-growth stocks and reinvest the distributions in new shares. This sets off a powerful compounding process that can turn a relatively small investment into a large nest egg over time.

CN raised its dividend 20% earlier this year and has hiked the payout by an average 17% per year over the past two decades.

Returns

A $10,000 investment in CN just 15 years ago would be worth $104,000 today with the dividends reinvested.

Should you buy?

CN isn't as cheap as it was a few weeks ago, but the stock remains an attractive pick for investors with a long-term horizon. If you want a name you can simply buy and forget about for a few decades, CN is a solid bet.

CATEGORY

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