



## TFSA Investors: Time to Buy Canadian National Railway Company?

### Description

Canadians are searching for top stocks to put in their TFSA portfolios.

Let's take a look at **Canadian National Railway Company** ([TSX:CNR](#)) ([NYSE:CNI](#)) to see if it deserves to be a core holding.

### Earnings

A sluggish North American economy is hitting rail-industry revenues, but CN continues to deliver solid results.

CN generated Q3 2016 net income of \$972 million compared to \$1 billion in the same period last year. On a diluted per-share basis, this translates into earnings of \$1.25 vs \$1.26 in Q3 2015.

The steady numbers came despite a 6% slide in revenue, a 4% decline in carloads, and a 3% drop in revenue tonne miles.

The company says full-year adjusted earnings per share (EPS) should be up 1% compared with last year's EPS of \$4.44.

For the first nine months of 2016 CN generated \$1.743 billion in free cash flow compared to \$1.741 billion in the same period in 2015.

### Wide moat

CN is the only railway company in North America that can offer services to three coasts. The advantage is likely to remain in place because rail mergers tend to run into steep regulatory hurdles, and the likelihood of new lines being built along the same routes is pretty much nil.

### Efficient operations

CN still has to compete with the trucking industry and other railways in some areas, so management works hard to keep costs as low as possible.

In fact, CN is widely viewed as the best-run company in the business and regularly reports the industry's top operating ratio, which came in at a Q3 record low of 53.3%. The number represents the company's costs as a percentage of revenue.

### **Dividend track record**

CN raised its dividend by 20% earlier this year and hiked the payout by 25% in 2015. Free cash flow remains robust, so investors should see solid dividend growth continue as the company moves to put more profits in the pockets of shareholders.

Over the past two decades CN's compound annual dividend growth rate is about 17%.

The current quarterly dividend of \$0.375 per share yields 1.8%.

### **Share buybacks**

CN also has a strong history of buying back its stock. The company has repurchased 135 million shares over the past five years returning about \$8 billion to shareholders in the process.

Management just launched a new repurchase program that will permit the company to buy up to 33 million additional shares over the course of the next 12 months. This represents 5.1% of the outstanding common shares.

### **Should you buy?**

Economic challenges are expected to persist in the near term, but CN remains a solid choice for those searching top dividend-growth picks to stash away in a TFSA for a couple of decades.

The stock has pulled back a bit after the earnings news, presenting a nice opportunity to get in on a dip.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

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### **Date**

2025/08/24

### **Date Created**

2016/10/27

### **Author**

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