# Income Investors: This Is the Best Dividend-Growth Stock on the TSX

## Description



A lot of income investors have an investment strategy of simply picking stocks that pay high dividend yields to be the core of their portfolios. Most high-yielding stocks have limited earnings-growth potential for the long run because the companies are paying out a majority of their free cash flow instead of re-investing it to grow future earnings.

For some income investors, like retirees, this is a strategy that works for them since they need a higher income and don't care too much for capital gains. But for long-term investors seeking to maximize their returns in the long term, simply selecting high-yielding stocks may not be the best strategy. I believe dividend-growth investing is one of the best strategies for investors seeking terrific results in the long run.

Dividend-growth investing involves picking fantastic businesses that have durable competitive advantages and the ability to grow their dividends by a significant amount over the next few years. Dividend-growth stocks usually have a long-term strategy to increase future free cash flow, so the company can afford to pay an increasing dividend each year. These dividend-growth stocks will pay bountiful yields while accumulating capital gains to give investors the best of both worlds.

Bill Gates loves the rails, and there's a reason why he owns such a huge stake in **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). He's a smart investor, and he knows that the company has one of the widest moats in North America. It has a rail network that spans both Canadian coasts as well as the Gulf Coast. It would take a new entrant many years and billions of dollars to create a network like this.

The management team is also top notch; it focuses on improving operational efficiencies each year to improve margins. This is why the company has an outstanding 24% ROE and can grow its cash flow to support dividend raises each year.

The stock currently pays 1.64%, which may not seem like a high dividend, but for long-term holders of the stock, this dividend will grow at a rapid rate. The company has increased its dividend by as muchas 25% in a year.

Canadian National Railway has 17% of its revenues coming from the U.S., so we could see more dividend hikes of this magnitude continue over the next few years thanks to a strengthening U.S. economy.

Assuming Canadian National Railway continues raising its dividend by 25% a year, if you bought the stock right now and held it for the next five years, you'd collect a 5% dividend yield from your original investment. Just think about what the yield will grow to be in a decade from now or 30 years down the road!

This is the power of dividend growth, and thanks to Canadian National Railway's huge moat and fantastic management team, this kind of dividend growth is possible.

This is why Bill Gates owns the stock, and why it will keep him the richest man in the world for many years to come.

**CATEGORY**

1. Investing



**TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
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joefrenette