



1 Dividend Stock Every Investor Should Own

Description

You don't need to earn a massive paycheck to become a millionaire. One of the easiest ways to build wealth is by investing in high-quality dividend-paying companies. This is exactly what a humble janitor did to amass an \$8 million fortune by the time he died in 2014. The core of his portfolio was invested in blue-chip dividend stalwarts such as **Proctor & Gamble**, **Johnson & Johnson** and **J.P. Morgan Chase**.

This demonstrates just how effective dividend investing can be.

One Canadian dividend stalwart that every Canadian investor should add to their portfolio is **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)).

Now what?

Canadian National operates one of North America's very few transcontinental rail networks, allowing it to access over 75% of the U.S. population and all major Canadian markets. When this is coupled with its wide economic moat and the fact that rail is the most cost-effective means of bulk freight transport, its earnings are virtually guaranteed.

This is why Canadian National has an impressive dividend-payment history.

The company has paid a dividend every year since listing in late 1995; it has increased its dividend for the last 17 years straight. This gives it a 1.7% yield; while not overly impressive, it remains sustainable with a payout ratio of 32%.

In fact, such a low payout ratio coupled with the certainty of its earnings means that Canadian National is well positioned to continue growing its dividend, even if earnings growth is relatively flat.

The growth potential that Canadian National offers investors becomes clear when considering its historical performance. Had an investor bought \$1,000 worth of stock 10 years ago, that investment, including dividends, would now be worth \$3,727.67, which amounts to a total return of 273%, or an annualized return of 14%. It is difficult to find any other asset that not only provides the certainty of a

regular income stream, but also generates such an impressive yield for investors.

The stability of Canadian National's business and its earnings becomes apparent when considering that at the height of the global financial crisis, Canadian National hiked its dividend when other companies were cutting dividends or eliminating them altogether.

The outlook for Canadian National is growing increasingly positive. The substantial rebound in commodity prices, particularly coal and crude, will be a powerful tailwind for revenue growth.

You see, rail is the only cost-effective means of transporting bulk dry freight such as coal.

As oil prices rise, so will production in the energy patch as beaten-down energy stocks move to cash in on higher prices. This rising production will eventually trigger the same capacity constraints that existed in Canada's pipeline network prior to the slump in crude. Where pipelines can't meet demand, rail is the proven go-to solution. This bodes well for greater demand for crude-by-rail transportation.

So what?

Canadian National's wide economic moat, the stability of its business, and the ongoing demand for rail transportation virtually ensures that it will continue to grow its dividend over the long term. This makes it a must-have stock in every income-focused portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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