



An Explosive Growth Stock for Your RRSP

Description

As the North American economy picks up steam, smart investors are looking for opportunities to benefit from this growth momentum.

You should try to find companies that aren't in deeply cyclical businesses. You're also better off to avoid commodity and capital-intensive businesses in your RRSP portfolio.

One of the top metrics I look for a long-term investment is stable growth in free cash flow. Free cash flow tells us about a company's financial performance (after we take out operating cash flow from capital expenditures). This measure also tells us about the cash that a company is able to generate after spending the funds required to maintain or expand its asset base.

This is a very important measure for dividend investors because a good free cash flow number will allow companies to consistently pay you dividends and grow them over the long run. **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) is one of those companies.

CNR also stands to benefit greatly from a turnaround in both the U.S. and Canadian economies. CNR runs a 100-year-old railway business and has a strong leadership position in the transportation sector.

The best companies for long-term income investors are those which operate in duopolies, because they command pricing power after creating a strong economic moat that stops competition from challenging their dominance. The Canadian rail industry is a quintessential duopoly, dominated by CNR and **Canadian Pacific Railway Limited**.

CNR is the right investment if you want to avoid a direct exposure to a highly cyclical commodity sector.

CNR has just finished a great second quarter, beating analysts' estimates as its profits surged 20% to \$1.03 billion on record sales. The company earned \$1.36 per diluted share, up from \$1.10 a year earlier, when it posted \$858 million in net income. Revenues grew 17% to \$3.3 billion, led by metals and coal, which were both up by 33%.

And the most important measure for dividend investors — free cash flow — surged 39% to \$811 million

in the second quarter when compared to the same period a year ago.

A great dividend-growth stock

CNR is one of the best dividend-growth stocks for your retirement account. It pays \$0.4125 quarterly dividend. Investors are getting 10% higher dividend this quarter when compared to the same period last year.

Over the past five years, CNR's annual dividend distribution has doubled to \$1.5 a share — a great incentive for its investors, who also benefited from explosive growth in CNR share value. During the past five years, CNR shares rose more than three times, beating the benchmark index with a great margin.

I think a 6% slide in CNR shares in the past month provides a good entry point for investors seeking to add a valuable Canadian company to their retirement portfolios.

CATEGORY

1. Investing

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