TFSA Alert: A Top Canadian Dividend-Growth Stock to Start the New Year

Description

Young Canadian savers are searching for reliable dividend-growth stocks to add to their TFSA portfolios.

The strategy makes sense for all investors, but millennials who are looking to set up a retirement fund can probably benefit the most by using the TFSA.

Why?

The TFSA is an appealing alternative to the RRSP when an investor believes his or her income will rise in the coming years.

Using the TFSA at the beginning of your career, when earnings are likely at their lowest, allows you to bank RRSP contribution room to be used down the road when you are in a higher tax bracket.

One way to harness the power of the TFSA is to own dividend stocks and invest the distributions in new shares. This sets off a compounding process that can turn a modest initial investment into a nice nest egg over the course of two or three decades.

Which stocks should you own?

The best companies tend to be market leaders with wide moats and long track records of dividend growth.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it might be an interesting pick.

Wide moat

CN is the only rail operator in North America with tracks connecting three coasts. This is a big competitive advantage that should continue for some time, as attempts to merge railways tend to run into significant regulatory roadblocks, and the odds of new lines being built along the same routes are pretty slim.

Efficient operations

CN still has to compete with trucking companies and other railways on some routes, so management works hard to ensure the operations are as efficient as possible.

The company regularly reports the best operating ratio in the industry, and CN is widely viewed as the best-run business in the sector.

Diverse business lines

As the backbone of the Canadian and U.S. economies, CN carries everything from crude oil and coal to lumber, grain, consumer goods, and cars. When one group hits a slump, the others tend to pick up the slack.

U.S. exposure

In addition, a large part of the revenue and earnings is generated in the United States. This provides a nice hedge against a downturn in the Canadian economy, and profits can get an extra boost when the U.S. dollar strengthens against the loonie.

Dividend growth

CN's dividend yield might not be very attractive, but the history of dividend growth is certainly impressive. In fact, the company has a 20-year compound annual dividend-growth rate of about 16%.

That's important for long-term investors who use the distributions to buy additional shares.

What about returns?

A $10,000 investment in CN just two decades ago would be worth more than $250,00 today with the dividends reinvested.

The bottom line

There is no guarantee CN will generate the same returns over the next 20 years, but the company remains an attractive pick for buy-and-hold TFSA investors.

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