This Growth Stock Just Hiked its Dividend by 10%

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) has been a quality growth company for long-term investors. Since 2007, the stock has delivered an annualized rate of 14.2%, which nearly doubled the market return in that period.

The outperformance was helped by a price-to-earnings multiple expansion from about 16 to 19. The multiple expansion occurred because the company nearly tripled its earnings per share in the 10-year period. In other words, its earnings per share increased at a compound annual growth rate of about 11.4%.

In the same period, Canadian National Railway's dividend nearly quadrupled and increased at a compound annual growth rate of about 14.7%. In fact, management just announced a dividend hike of 10%. So, the stock now offers a yield of nearly 1.86%.

The stock pulled back about 7% from a recent high. So, it's a good time to investigate to see if the dip makes the company an attractive buy or not.

Going forward

Canadian National Railway plans to invest $3.2 billion ($500 million more than last year) into the business this year. About half of the investments will go to infrastructure maintenance to enhance safety and efficiency, while the rest will be spent on equipment and on key capacity projects to meet growing freight demand.

Canadian National Railway has been rewarding long-term shareholders with a growing dividend. Specifically, it has hiked its dividend for 22 consecutive years with a 10-year dividend-growth rate of 14.7%.

With a payout ratio of about 33% this year and an estimated long-term earnings-growth rate of 9-11%, investors can expect management to grow the dividend by roughly 10% per year for the next three to five years.

Is Canadian National Railway a good buy?

The stock's recent quotation is $98 per share. So, the stock trades at a price-to-earnings multiple of about 19.2. As a result, the stock is at best fairly valued. Long-term investors can consider nibbling here.

Investor takeaway

Canadian National Railway isn't exactly a bargain at current levels. However, quality companies are rarely on sale. So, long-term investors can consider buying some shares, and buy more if the stock dips further.

If you're looking for more of a bargain, consider **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) instead. Although you can't compare it with Canadian National Railway's quality, it offers a higher estimated long-term earnings-growth rate of 11-13%, while it trades at a similar valuation as Canadian National Railway.

Canadian Pacific Railway offers a yield of nearly 1% and last hiked its dividend by 12.5% in June. With an estimated payout ratio of under 18% this year, management has lots of room to grow the dividend if it so wishes.

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