This Top Dividend Stock Is Selling Cheap After a 10% Payout Hike

Description

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is one of my favourite dividend stocks. But investors don't seem keen to buy this top Canadian name after its fourth-quarter earnings report.

Let's see whether CN Rail is a bargain for investors seeking stable dividend income after its 6% plunge in the first three weeks of 2018.

The company disappointed investors in the latest earnings report when it reported lower-than-expected adjusted profit. Adjusted earnings per share were $1.20, lower than analysts' forecast of $1.22 a share.

However, the headlines didn't tell the whole story. The biggest challenge the CN Rail faced in the last quarter wasn't a slowing demand. In fact, last year the company registered some of the biggest volume growth in the past 10 years.

This remarkable growth in volumes tested the company's capacity to handle increased shipments, resulting in higher operating expenses, which rose 9% in the fourth quarter as CN Rail scrambled to meet high demand from its customers.

To counter these challenges, CN is expanding its capital budget to a record $3.2 billion in 2018 to invest in new locomotives and build additional capacity.

Dividend hike

For long-term investors, these short-term setbacks don't mean much, and indeed offer a buying opportunity. CN Rail has a dominant position in the North American transportation industry.
Its transcontinental 19,600-mile rail network spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico.

Its strong position has allowed the company to pay uninterrupted dividends since going public in the late 1990s. This month, management boosted the quarterly payout by 10% to $0.46 per share.

But you can’t make money without taking some risks. The strengthening Canadian dollar and a potential economic downturn are two major risks that investors should keep in mind when investing in this company. While the North American economy remains strong, the strengthening Canadian dollar poses a threat.

According to CN Rail, about 17% of its sales were linked to U.S. domestic traffic last year, and an additional 34% involved trans-border traffic. Due to this large exposure to the U.S. dollar, CN Rail estimates that every one-cent change in the Canadian dollar would affect net income by approximately $30 million.

The bottom line

Trading at $96.97 at the time of writing, CNR stock is close to the 52-week low. With an annual dividend yield of 1.68% and potential for future capital gains, I think CNR stock is a bargain for dividend investors with a 5-10 year investment horizon.

This yield will look meager to many investors, but again, this doesn’t tell us the company’s true potential. During the past five years, investors have doubled their capital on the total return basis.

CN Rail is just one of many wonderful Canadian large-cap companies that can offer stable growth for your portfolio over the long run.

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