1 Canadian Dividend Champion to Benefit From the Economic Upswing

Description

The global economic upswing continues to gain considerable momentum, much of it being driven by the solid recovery in emerging markets. This can be attributed to their reliance on the extraction and export of commodities such as base metals, precious metals, coal, and oil, which have all experienced a significant uptick in prices of late.

What many pundits fail to recognize is that the same factors that are driving an improved economic outlook for developing economies are also a positive for Canada. This is because the extraction of oil, metals, and coal is responsible for just over 8% of Canada's GDP and over 15% of export earnings. It means the growing demand for commodities, which continues to push prices higher, from China and India is a powerful tailwind for Canada's economy.

As a result, the IMF recently hiked its growth forecast for Canada, lifting its projected GDP growth for 2018 by 30 basis points (bps) to 2.3% and by 20 bps for 2019 to 2%. The IMF also expects Trump's tax reforms and fiscal stimulus to benefit Canada.

That bodes well for many Canadian stocks, notably those with exposure to the mining and energy sectors, such as **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI). Canadian National owns and operates Canada's largest rail network and is responsible for transporting a significant volume of Canada's bulk freight.

Now what?

With rail being the only cost-effective means of transporting bulk freight combined with the breadth and width of Canadian National's transcontinental rail network, demand for its services can only rise. The firmer demand for freight by rail because of higher metals and coal prices as well as economic growth is reflected in Canadian National's third-quarter results.

Carloads for the quarter rose by 11% year over year, while gross tonne miles shot up by a healthy12%. This can be attributed to a marked increase in the volume of metals, other minerals, and coal transported for that period. Revenue tonne miles for metals and mineral spiked by an impressive 50%, while for coal they expanded by 40%.

That trend will continue as Canadian miners such as **Teck Resources Ltd.** boost their coal, copper, and zinc production to take advantage of higher prices.

I also expect to see a higher volume of oil by rail over coming months, because of oil's sustained rally, which now sees West Texas Intermediate trading at over US$64 per barrel.

Because of greater freight volumes, Canadian National's third-quarter revenue grew by 7% year over year, and operating income by 4%. Despite net income dropping by just over 1% compared to a year earlier, free cash flow, which is an important indicator of financial health in a capital-intensive business such as railways, rose by just over 15% to $662 million.

So what?

Canadian National has a long history of rewarding investors with steady dividend growth. It has hiked its dividend for the last 18 years, and Canadian National's solid third-quarter results bode well for yet another increase, especially when the conservative payout ratio of % is considered. That increasingly positive economic outlook coupled with higher demand for metals and coal will boost earnings, ultimately giving Canadian National's stock a healthy boost.

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