Canadian National Railway (TSX:CNR): A Top Dividend-Growth Stock to Launch Your TFSA Retirement Portfolio

Description

Canadian investors are searching for efficient ways to save some serious cash for retirement.

One popular strategy, especially among younger investors, is to buy dividend-growth stocks inside a TFSA and invest the distributions in new shares. This sets off a powerful compounding process that can turn a relatively small initial investment into a large nest egg over time.

The process also works inside RRSP accounts, but the TFSA might be a better option for millennials who have not yet hit their highest-income years, as RRSP contributions can be used to reduce taxable earnings.

Which stocks should you buy?

The best companies are market leaders with strong track records of dividend growth.

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

Operations

CN is effectively the backbone of the Canadian and U.S. economies, with tracks connecting three coasts. The company transports grain, coal, cars, metals, lumber, oil, and consumer goods. When one business segment has a rough quarter, the others usually pick up the slack.

The U.S. operations generate a significant part of the company's earnings, providing a nice revenue hedge against a downturn in the Canadian economy.

Investment

CN continues to invest to ensure it remains competitive. The company recently announced plans to buy 350 lumber cars and 350 box cars to meet growing demand in its forest products and metals businesses. CN is also adding 60 new locomotives this year as part of a 200-unit order. In addition, the company is investing in rail line upgrades and additional yard capacity.

In total, CN's capital plan will be a record $3.4 billion this year.

Dividends

CN has a compound annual dividend-growth rate of 16% over the past 22 years and raised the payout by 10% for 2018. The company generates significant free cash flow to support the distributions, and investors should see the trend continue.

Returns

Long-term investors have done well with this stock. A $10,000 investment in CN two decades ago would be worth about $200,000 today with the dividends reinvested.

The bottom line

There is no guarantee CN will generate the same results over the next 20 years, but the company remains an attractive TFSA pick. The strategy of buying quality dividend-growth stocks and investing the distributions in new shares is a proven one, and there are many good companies to choose from in the Canadian market.

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