



1 Top Dividend Stock Every Investor Should Have in Their TFSA

Description

Building a retirement nest egg requires discipline and a focus on investing for the long term in quality companies that have quality operations, solid balance sheets, and steadily growing earnings. One company that possesses those characteristics as well as a unique mix of growth and defensive attributes that should be in every Tax-Free Savings Account (TFSA) is **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)).

Now what?

Canadian National possesses a solid, almost insurmountable economic moat which protects its earnings and virtually prevents competition. That moat arises because of the railroad industry's steep barriers to entry, where significant regulatory requirements coupled with the considerable capital required to construct or purchase a rail network virtually prevents new competitors from emerging.

This creates an oligopolistic market, where Canadian National can, to a degree, act as price marker rather than being a price taker, further securing its earnings and enhancing its growth.

Canadian National's rail network spans from Canada's east to west coasts as well as south to the U.S. Gulf Coast, making it the largest in Canada and the only transcontinental network in North America. That — along with rail being the only economically viable means of transporting bulk freight — ensures that the demand for Canadian National's freight services remains unwavering.

Nonetheless, its operations can be affected by weather conditions, which — along with the cyclical nature of commodities — can impact its earnings. Harsh winter weather adversely affected Canadian National's first-quarter 2018 operations, causing it to miss expectations.

Diluted earnings per share (EPS) came to \$1, or 14% lower than a year earlier, because of those conditions preventing Canadian National from fully utilizing its network, causing revenue tonne miles (RTMs) to fall by 4% year over year. This poor performance has impacted Canadian National's 2018 outlook, causing management to trim forecast diluted EPS to \$5.10-5.25 per share compared to original guidance of \$5.25-5.40 per share.

While that is a disappointing outcome, it is still greater than 2017 earnings of \$4.99 per share.

Canadian National's earnings will continue to grow over the long term, particularly because the company is positioning itself for near-term growth. It has committed to investing \$3.4 billion during 2018, which will see Canadian National initiate 29 major infrastructure capacity projects over the course of the year. On completion, these projects will boost the volume of carloads its network can carry as well as bolster network resilience, helping to reduce its vulnerability to harsh climatic conditions.

The improved economic outlook and [higher commodity prices](#), notably for oil, coal, and [metals](#) bodes well for Canadian National's earnings.

You see, growing oil production in Canada's energy patch coupled with existing pipeline constraints means there will be an increase in the demand for crude by rail. Higher production from Canadian coal and metals miners saw the volume of carloads for coal rise by 10% year over year, while metals and minerals grew by 4%. That growth will continue, as miners boost production to take advantage of higher commodity prices.

So what?

On initial appearances, Canadian National's dividend yield of 1.6% does not appear especially appealing, but the company has a long history of increasing its dividend, having hiked that payment for the last 22 years. Because the dividend has a payout ratio of less than 50% it is not only sustainable, but there is every likelihood of further dividend hikes as Canadian National's earnings grow. This — along with its defensive characteristics, strong growth potential, and relatively stable earnings — makes it a highly appealing long-term investment that's ideal for any TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/17
Date Created
2018/06/14
Author
mattdsmith

default watermark

default watermark