Now Is the Time to Buy This Dividend-Growth Stock

Description

Volatility has returned to the markets and investors are getting anxious. Over the past month, the TSX Composite Index has lost approximately 5% of its value. In such times, its best to look for safety and value.

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Companies that have a storied history of dividend growth tend to outperform during times of turbulence. One company that can help investors protect their portfolios against a market crash is **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Topping estimates

After a tough start to the year, when CN Rail experienced logistical issues, the company has successfully righted itself. On Tuesday, it topped analysts' estimates on both the top and bottom lines. Third-quarter earnings per share of $1.50 beat by $0.03 and revenues of $3.69 billion beat by $110 million. This represents growth of 15% and 14%, respectively, over the third quarter of last year.

Volume continued to trend upwards with revenue tonne miles (RTM) and carloads growing by 4% and 3%, respectively, year over year. Thanks to its impressive results, the company also decided to up its buyback plan. It now intends to purchase an additional 5.5 million shares for cancellation.

This is the perfect type of company where you want to park your money in times of uncertainty. It will continue to provide growth and income as you wait out the choppy markets.

Rising dividend

CN Rail is a Canadian Dividend Aristocrat, having raised dividends for 22 consecutive years. This places it among the top 10 dividend-growth companies in Canada. Don't let its low yield of 1.63% trick you. It's only this low because it has seen significant share price appreciation over the years. Over the past five years, CN Rail's share price has grown by an average of 17%. This far exceeds the returns of the broader market.

When combined with a five-year history of double-digit dividend growth, CN Rail is a rare combination of growth and income. The best part is that investors can expect this trend to continue. In the first nine months of the year, the company generated $1.881 billion in free cash flow (FCF) and paid $1.001 billion in dividends. As dividends account for only 53% of FCF, CN Rail can comfortably raise dividends at a good pace.

Valuation

No company has been immune to the recent sell-off. CN Rail, however, has fared better than the TSX Index, shedding only 3.7% of its value. Trading at 11 times earnings, the company is cheap. Analysts have a one-year price target of $121.31, 12% upside from today's price of $108.25.

If you missed out on your opportunity to pick it up on its early year struggles, don't miss out this time. CN Rail is a buy.

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