Why This Dividend-Growth Stock Is Perfect for Your TFSA Account

Description

Dividends can be a great way to generate income. Over time, dividend payouts can add up to substantial amounts of capital, especially when companies are carefully selected for their ability to increase dividends. Dividend-growth companies are also perfect for TFSA accounts, which are best suited for a long-term investment strategy.

These criteria make **Canadian National Railway** (TSX:CNR)(NYSE:CNI) one of the top TSX stocks for TSFA investors. As the largest railway company in Canada, CNR has the biggest market share in an almost impregnable industry. CNR has paid dividends every year since 1996 and has generally increased dividend payouts year after year.

Over the past four years, CNR has grown its dividends by 33%. The company currently has a dividend yield of 4.82%, with a payout ratio of 23%, which should bode well for income-oriented investors and those looking for a dividend-growth stock to include in their TFSA. Let's consider two more reasons why CNR is a good investment option.

CNR is undervalued

There are good reasons to think that CNR is currently undervalued. The company's current P/E is 12.85, which is lower than the TSX average. CNR's stock is also cheaper than that of its main competitor in Canada, **Canadian Pacific Railway**.

Buying shares of a company at a price lower than its intrinsic value is always a good idea.

CNR runs like a well-oiled machine

CNR's recent earning reports were encouraging. The company posted increases in revenue, operating and net income, and earnings per share. CNR is also generating profits more efficiently. The company's return on equity has increased by 13% over the past five years, while its net profit margin has increased by 16% over the same period.

While CNR has always been considered one of the most efficient railway companies, the firm went through some issues at the beginning of the year. An increase in demand caused CNR's network to be congested, leading to several unsatisfied customers and a drop in its stock's price.

CNR pledged to deal with the issue, however, and increased capital budget spending to $3.2 billion, which was a record for the company. CNR also hired 400 train conductors during the first quarter alone.

CNR's efforts to move back on the right track were rewarded. The company's second-quarter earnings were excellent, and its stock's price recovered from its first-quarter slump. While CNR has not escaped the recent highly volatile stock market, witnessing the company respond appropriately to a bit of a crisis the way CNR did is an encouraging sign for investors.

The bottom line

CNR has proven its ability to sustain both earnings growth and dividend increases while fending off an unexpected rise in demand and maintaining efficiency at an optimal level. The company is also currently undervalued, which means now is a great time to buy shares of the railway giant. TSFA investors should take notice.

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