This Defensive Stock Should Be on Top of Your TFSA Buying List

Description

There are many reasons that make Tax-Free Savings Accounts (TFSAs) attractive for Canadians. But one top reason that makes me a fan of this excellent saving vehicle is its flexibility.

You can withdraw your funds any time you want without any tax penalty. And any withdrawal doesn't reduce your TFSA limit you have accumulated over the years. If you are convinced that TFSA is great way to build your savings, then the next challenge is to decide which stocks to put in this basket.

In my opinion, for long-term investors who want to build some wealth before their golden days, solid dividend-paying companies are a great option. These companies are defensive in nature, meaning they have the ability to survive in a market downturn, and they have enough financial muscles to continue paying dividends, even when growth is hard to come by.

Here is a one such stock from Canada that should be on top of your buying list if you plan to divert some of your savings to your TFSA this year.

Canadian National Railway

I like **Canadian National Railway** (TSX:CNR)(NYSE:CNI) stock for your TFSA for the two main reasons. First, this transportation giant is so crucial for the Canadian economy that it's hard to see a future without this company.

CN Rail runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico. This wide economic moat makes CN Rail a stock that has the power to defend its business, while continuing to pursue growth.

Second, this stock has proven to be a great growth and income stock. This combination is hard to come by, as the majority of income stocks have passed their growth phase; the main reason investors like them is to get a regular income stream.

But in the case of CN Rail, the network is still in the middle of its massive growth, triggered by a huge demand for its services. That’s the reason that its stock has gained 85% over the past five years.

Last year, CN Rail started an aggressive expansion plan to overcome its capacity challenge. The company is spending a record $3.5 billion to buy new rail cars, add more workers, and improve the western section.

With its growth potential, CNR is also reliable stock to earn growing dividend income within your TFSA. The company has paid uninterrupted dividends since going public in the late 1990s. Lat year, the company boosted the quarterly payout by 10% to $0.46 per share, totaling $1.82 annually.

The company’s ability to continue paying a growing dividend is something you must look for when you add a stock in your TFSA portfolio. CNR has been increasing its dividend with a five-year CAGR of 14% and has plans to continue with the double-digit growth in its payouts.

Bottom line

At $108 a share at the time of writing, CNR stock is trading a little cheaper after the market went through a sell-off in the past quarter. With the 12-month trailing price-to-earnings multiple of 13, it doesn’t look expensive to me. The stock offers over 40% profit margin, which is quite attractive from a railroad stock.

Over the long run, its robust cash flows, dominant market position, and solid history of paying dividends are some of the qualities that make it a solid dividend stock to have in your TFSA.

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