The #1 Dividend-Growth Stock for 2019

Description

Back in 2009, when stocks were still in the penalty box, I remember trying to scrape up enough cash to buy shares of **Canadian National Railway** (TSX:CNR)(NYSE:CNI). I'd put money into the Canadian banks but just couldn't get together enough cash to buy the railway at around $24 (split-adjusted) a share. By the time I got around to buying the stock a couple of years later, the stock had already shot up to around $50. I lamented about having bought it at double the price, but I held on. Since then, the stock has doubled once again, and the dividend has kept on growing.

If you are going to build a core portfolio of dividend-paying stocks, CNR has to be at the top of that list. With its less-than-exciting yield of 1.74% at the share price, at first glance, it appears to be a bit baffling why this railway is such a hands-down company to include. But a deeper look reveals a company that has provided massive capital appreciation, a solid record of operational performance, and dividend growth that continues to deliver.

Incorporated after the First World War in 1919, CNR is celebrating its 100th year as a company in its own right. From its roots as a compilation of government and bankrupt railways, CNR has grown to become one of North America's best-run companies. The company now operates around 20,000 miles of track which reach three of North America's coasts. It operates extensively in Canada and the United States, providing rail, trucking, and shipping services for a variety of industries.

The diversified business model delivered excellent results in the fourth quarter of 2018. This "boring" company grew its year-over-year revenues by 16% over the same period of 2017. A large part of the revenue increases was due to freight rate increases as well as higher volumes of commodities shipped throughout the year as compared to 2017.

After a tough start to the year, CNR performed well for the rest of 2018. Full-year adjusted diluted earnings per share increased by 10% over the previous year's full-year results. Operating income for the quarter improved by 19% and free cash flow increased by 38.5% over Q4 of 2017.

The dividend of 1.74% might not draw too many investors' eyes, but the double-digit increases are worth a look. Last year, CNR raised its dividend by a respectable 10%. In 2019, the company has practically doubled that increase, recently hiking the payout by 18%. It's the continued dividend growth that makes the railway such a compelling investment.

There are risks to the company, of course, as there is with any stock. CNR has a fair amount of debt, although much of that debt is locked in at low rates for long periods of time. It is also possible that technological advances in freight transportation could siphon away some of its business. But at the present time, the debt is manageable and it essentially has the market cornered on large-scale freight transportation.

Over the years, CNR has become one of the most perfect dividend stocks an investor could buy. Its operational performance has been excellent, even in the face of weak commodity prices. Its dividend has grown at a steady clip over that time, as has its capital appreciation. While no stock is perfect or without risk, CNR is probably one of the best bets for long-term positive results that Canadian investors can buy.

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Date
2025/08/24
Date Created
2019/02/11
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