RRSP Alert: Should You Buy Canadian National Railway Company (TSX:CNR) Stock?

Description

Canadians are making last-minute contributions to their RRSP accounts to reduce their taxable earnings for 2018 and put some cash aside for the future.

The funds can be invested in a number of ways, and one popular strategy involves buying reliable dividend-growth stocks and using the distributions to acquire new shares.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if it might be an interesting pick today for your RRSP portfolio.

Earnings

CN reported solid results for Q4 2018 and the good times are expected to roll right along.

The company generated revenue of $3.8 billion in the fourth quarter, representing a 16% increase over the same period last year. Operating income jumped 19% to $1.45 billion and adjusted diluted earnings per share rose 24% to $1.49.

Petroleum and chemicals revenue rose 50% on a year-over year basis in the quarter, and that group should continue to see strong growth. Oil-by-rail demand is increasing, as Alberta just signed a significant agreement with CN to help push the province's oil to higher-priced markets. Coal, grain and fertilizer, intermodal, and forest product carload revenue also improved.

In 2019, management is targeting earnings per share growth of at least 10%.

Investment

CN spent $3.4 billion in 2018 and plans to invest an additional $3.9 billion in 2019 as it bulks up its fleet of locomotives and rail cars and continues to upgrade tracks, hubs and intermodal infrastructure.

The capital program is aimed at meeting demand growth in a number of its segments while ensuring the business runs efficiently and remains competitive with other railways.

Dividends and share buybacks

CN just raised the dividend by 18% for 2019, so the company is obviously comfortable with the revenue and cash flow outlook. The board also approved an aggressive share buyback program that will see CN repurchase up to 22 million shares over the next 12 months.

CN has increased the dividend by a compound annual rate of about 16% over the past 20 years.

Should you buy?

CN holds a unique position in the North American rail sector. It is the only company with tracks connecting to three coasts and serves as the backbone for the Canadian and U.S. economies.

A large chunk of the revenue comes from the U.S. operations, and profits generated south of the border can give the bottom line a nice boost when the American dollar strengthens against its Canadian counterpart.

Long-term investors have done very well with this stock. A $5,000 investment in CN just 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The share price has bounced off the 2018 low, but still appears attractive. If you’re looking for a buy-and-hold dividend-growth stock for your RRSP, CN deserves to be on your radar right now.

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