1 Dividend Blue Chip We Are Watching Now

Description

The TSX Index is home to some of the safest companies in the world. The reason for this is simple, it is also home to some of the most insulated industries and those with the widest moats.

Case in point: railways. There are two dominant players in the industry: **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). Their tracks span thousands of miles from coast to coast, giving them with an infrastructure that is not easily duplicated.

This provides them with a significant competitive advantage and is one of the reasons why their stocks make excellent investments. On Tuesday, Canadian Pacific reported first-quarter earnings. Is now the time to buy?

First-quarter results

It wasn't a great quarter for Canadian Pacific as it missed on both the top and bottom lines. Earnings came in $0.21 lighter than expected and revenue missed by $10 million. Despite the miss, the company's share price spiked, jumping approximately 3%.

Investors seemed focused on the positives. For starters, the company's results were impacted by one-time events such as harsh winter conditions. Despite this, the company still posted a healthy 69.3% operating ratio. It also grew revenue and free cash flow by 6% and 18%, respectively, over the first quarter of 2018.

Despite the miss, the company still expects to achieve record results. The network is rebounding quickly, and it expects to grow volumes in the mid-single digits. As a result, the company is still guiding to double-digit adjust earnings-per-share (EPS) growth in 2019. This is in spite of only achieving 3% adjusted EPS growth in the first quarter.

A consistent performer

CP Rail has been one of the most consistent performers on the TSX Index. Year to date, the company's share price has jumped 24% and its two-year return 42%. Over the past five years, the company has averaged an annual return of 14.6%, far outpacing the TSX's 2.5% annual return over the same period.

The company has also returned to dividend growth. Although the company's yield of 0.94% is nothing to get excited about, the company has raised dividends by 21.5% on average over the past three years. The company held off raising its dividend early this past decade, as it was navigating operational challenges.

With those challenges overcome, the company has a renewed dividend focus. CP Rail's low payout ratio of 19% will enable it to raise by double digits over the next few years. Its payout ratio is also well below CN Rail's ratio of 30% and as such, I expect CP Rail's dividend-growth rate to outperform its competitor in the near future.

Foolish takeaway

CP Rail fits the definition of a blue-chip stock. This is not a stock that you try and time an entry point. Investors can feel confident taking a position in the company regardless of market timing. Likewise, one disappointing quarter is irrelevant in the grand scheme of things. Consider adding CP Rail to your portfolio on any weakness.

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