A Dividend-Growth Stock to Buy and Hold Forever

Description

Railway companies are interesting investment options for a variety of reasons. Many of them have built a wide moat around being the lowest-cost options to transport goods across land and having access maps that stretch across thousands of miles.

Canadian National Railway (TSX:CNR)(NYSE:CNI) is one of the two largest railway companies in Canada, and the firm is an excellent option for those looking for steady and growing cash for their TFSA.

Operating efficiency

One of the greatest strengths of Canadian National is its operating efficiency. The firm often records some of the highest margins in the industry. Over the past five years, CN has averaged a net profit margin of 31%. By way of comparison, **Canadian Pacific Railway** has an average net profit margin of 25.6% over the same period.

CN's efficiency is all the more impressive; even throughout the latest winter season — which was one of the hardest in recent years in Canada — the firm managed to improve revenues and profits, in part due to its high margins. The firm's Q1 2019 showed a revenue increase of 10% year over year, while net income and earnings per share increased by 6% and 8%, respectively.

Why is this important? The more a company keeps for every dollar it earns, the more money it has at its disposal. This money can then be used for a variety of things, including, for our purposes, rewarding shareholders by way of dividends.

Canadian National does not offer a particularly high dividend yield, which currently stand at 1.78%. It wouldn't be hard to find stocks on the TSX with much higher yields. However, a high dividend yield isn't everything. Since 2014, the railway company has increased its dividends by 115%, which amounts to an annual average increase of 23%. CN also offers a very conservative payout ratio, currently sitting at about 32%.

Further, Canadian National has been aggressively putting money into various projects to help maintain its efficiency and keep earnings afloat for years to come. CN's expansion projects are too numerous to go through one by one, but the big idea is pretty clear to investors.

By investing in infrastructure, capacity expansion, locomotives, train crew, technological improvements, and maintenance on thousands of miles of track, the company hopes to maintain its already strong competitive advantage. CN has invested more than $7.4 billion over the past two years (including a record $3.9 billion this year alone) for these projects.

According to the company, this should pay rich dividends in the future. Canadian National's guidance includes a double-digit annual growth in its earnings per share through 2022, and a mid-single-digit volume growth in 2019 in terms of revenue tonne miles.

The bottom line

CN sits comfortably as one of the most cost-efficient companies in an industry with high barriers to entry. The firm is currently spending billions of dollars to improve its operating efficiency and drive earnings even higher.

Also, CN's payout ratio is very low, which shows the company is capable of sustaining dividend increases for a very long time. Income investors looking for a stock to buy and hold should look to this railway company.

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Date
2025/08/16
Date Created
2019/06/07
Author
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