TFSA Investors: Grow Your Income With This Top Stock

Description

In the stock market, past performance is not a guarantee of future success (or failure). However, some companies have an underlying business model that has allowed them to be successful in the past and will likely allow them to continue being successful. Such companies are excellent picks for your TFSA, since they offer stable returns and sometimes pay excellent dividends. Let's consider one such company: **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

One of Canada's leading railway companies

While the technology industry can be an excellent place to find high-flying growth stocks, it is hard to build a moat in the tech sector. Technological innovations can easily render today's hot gadget into an outdated one within a year or less, which puts pressure on companies to constantly stay ahead — or at least within striking distance — of the competition. One industry that does not suffer from this severe drawback is the railway industry. Railway companies provide several advantages to their clients looking to transport goods from coast to coast. One of the most important such advantages is cost efficiency, but others include a lower risk of accidents, larger capacity, etc.

Canadian Pacific is one of the largest railway companies in Canada, and the firm's route spans the entire width of Canada, all the way down to the states of New York and Illinois in the U.S. Canadian Pacific plays an important role for the economy, making the firm's future prospect fairly stable. Over the past five years, the company's shares have grown by 54%. Investors aren't likely to obliterate the average return of the market by investing in Canadian Pacific, but the railway company is a model of stability.

Dividends

Canadian Pacific offers a dividend yield of 1.06%. While that isn't stellar, it amounts to a respectable quarterly payout given the firm's stock price. Canadian Pacific also has a payout ratio that is under 20%, which means investors can be relatively certain that their dividends will not be reduced anytime soon and will likely continue growing at a nice clip.

Over the past five years, the railway company has increased its dividend by 137% for more than an annual average increase of 27%. This figure includes a 27% increase in the last quarter alone. Canadian Pacific generates more than enough cash to cover years of constant dividend increases. It would be a mistake to judge the firm's dividends solely on its relatively low yield.

Why you should consider buying

While Canadian Pacific might be a bit expensive — with a price tag of over $300 and currently trading at 19.17 times past earnings — that isn't surprising given the prospects of the firm. Canadian Pacific could be an excellent pick for your TFSA, since it would likely provide consistent returns and steady (and growing) dividends.

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