Canadian National Railway (TSX:CNR): 1 Reason That Makes it a Top TFSA Pick

Description

The past one year was a very volatile one for stocks that are closely tied with the global growth. The reason that made these stocks a risky bet was the lingering trade war between the world's two largest economies — U.S. and China.

Canadian National Railway (TSX:CNR)(NYSE:CNI) has been one of those stocks that moved widely with the ups and downs of this dispute, which has the potential to derail the global economy from its growth path.

If you have CNR stock in your Tax-Free Savings Account (TFSA), or you plan to add this name to your long-term portfolio, then I don't think this uncertain economic outlook should deter you.

In my opinion, for long-term investors who want to build some wealth before their golden days, CN Rail is a great pick. The company is defensive in nature, meaning it has the ability to survive in a potential market downturn.

I derive this optimism from the fact that this transportation giant offers a crucial link to the North American economy. CN runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico. This wide economic moat makes CN Rail a stock that has the power to defend its business, while continuing to pursue growth.

Growth and income combination

This stock has proven to be a great growth and income stock. This combination is hard to come by, as the majority of income stocks have passed their growth phase; the main reason investors like them is to get a regular income stream.

But in the case of CN Rail, the network is still in the middle of its massive growth, triggered by a huge demand for its services. That's the reason that its stock has gained 55% over the past five years.

In the next phase of its growth plan, the company is planning major asset purchases to boost growth as part of its three-year new financial target that exceeds its earlier 10% earnings-per-share growth. The company's CEO Jean-Jacques Ruest told investors in June that inorganic growth from M&A and other deals is becoming important after years of internal growth.

With its growth potential, CNR is also a solid stock to earn growing dividend income within your TFSA. The company has paid uninterrupted dividends since going public in the late 1990s. In January, the company boosted the quarterly payout by 18% to $0.537 per share, totaling $2.15 annually.

The company's ability to continue paying a growing dividend is something you must look for when you add a stock in your TFSA portfolio. CNR has been increasing its dividend with a five-year CAGR of 14% and has plans to continue with the double-digit growth in its payouts.

Bottom line

Trading at $124.04 a share and with the 12-month trailing price-to-earnings multiple of 20, CNR stock looks a bit expensive. I think investors will get a better entry point in the next three to six months.

Over the long run, however, its robust cash flows, dominant market position, and solid history of paying dividends are some of the qualities that make it a solid dividend stock to have in your TFSA.

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