A Canadian Dividend Stock I'd Buy Right Now

Description

The shares of **Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI) has fallen more than 6% since May on concerns that a slowing industrial economy will hurt the company's earnings.

The biggest threat to cyclical stocks, such as CNR, came from the trade war between the U.S. and China. The dispute, which investors were expecting should have been resolved by now, is lingering and threatening to slow down the global economy.

The weakness, which came after CNR stock hit a record high in April, is a good opportunity for long-term investors to stash that dividend-paying stock in their portfolio. Apart from these macro issues, however, there's no major threat to its earnings.

The company is successfully emerging from capacity constraints it faced in 2018. In the second-quarter earnings report, CN Rail reported revenue growth of 9%, helped by higher oil and grain volumes.

The year-over-year increase in sales was also helped by the inclusion of **TransX**, a trucking company CN recently bought to expand its reach in the container shipping supply chain.

CN posted a second-quarter profit of $1.36-billion, or $1.88 a share, compared with $1.3-billion ($1.77) in the same period of 2018. CN's operating ratio, which compares sales with expenses, improved to 57.5%.

Montreal-based CN, which has 24,000 employees in Canada and the United States, operates a 32,000-kilometre freight network that reaches the east and west coasts and the U.S. Gulf Coast.

Surging petroleum and chemical shipments

The biggest boost to CN Rail is from surging shipments of petroleum and chemical products. Revenue from this unit increased by 26% year over year. The stock currently trades at the trailing 12-month price-to-earnings multiple of 19, which is lower than where it traded in May this year.

For the next five years, I see robust growth in this stock. The network is still in the middle of its massive growth, triggered by a huge demand for its services, which is why 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. 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, totalling $2.15 annually.

Bottom line

Trading at $114.80 at writing with an annual dividend yield of 1.87%, CNR stock now looks attractive and a good buy for your income portfolio. The company's ability to continue paying a growing dividend is something investors must look for when adding a stock to their portfolios.

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.

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Author
hanwar