TFSA Investors: This Dividend Stock Is Among the Best to Buy and Hold

Description

For long-term investors, such as those Canadians using their Tax-Free Savings Account (TFSA) to boost their savings, it's important to find stocks that they can buy and hold over the long run.

This investing strategy is important to pursue to create wealth as equities have proven to be one of the best investments for those who are in the game over the long haul. One way to achieve this goal is to buy top-quality dividend growth stocks.

While these regular payouts don't look substantial, if you keep dividend-paying stocks in your TFSA portfolio over the long run and reinvest dividends by buying more shares, you'll notice how quickly your portfolio grows by the power of compounding.

Here is one of my favourite stocks from Canada that nicely fit in this strategy:

Canadian National Railway Co.

Canadian National Railway Co. (TSX:CNR)(NYSE:CNI) is on top of my list for stocks that TFSA investors should buy and then never sell. Canada's largest railroad operator has been very consistent when it comes to growth and paying dividends to investors.

Over the past 10 years, CNR stock has delivered about 370% capital growth, including dividends. One major reason that makes CN Rail a top stock to buy is that the company provides a crucial link to the expanding North American economy. CNR runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico.

I don't see that dominant position to come under threat anytime soon. The network is still in the middle of its growth phase investing billions of dollars to meet growing demand for its services.

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.

Another things that makes CNR stock attractive for TFSA investors is its combination of growth and income. This combination is hard to come by, as dividend stocks are more likely to provide income than growth.

In the quarter ended September 30, CN rail reported a better-than-expected profit thanks to higher freight rates. Excluding one-time items, the company earned $1.66 per share, thereby beating the average analyst estimate of $1.62.

The company’s net income rose 5.4% to $1.20 billion, or $1.66 per share. For the full-year earnings, which are scheduled to be reported on January 28, there could be a negative surprise due to an eight-day workers’ strike in November that crippled CN operations.

CN revised its annual financial outlook last month to expect low to mid single-digit growth in earnings per share, down from its previous prediction of high single-digit growth.

But any potential weakness post earnings, in my opinion, should offer a good entry point for TFSA investors who are waiting on the sidelines

Bottom line

Trading at $125.34 a share and with a 12-month trailing price-to-earnings multiple of 20, CNR stock looks expensive. But 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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Date
2025/08/10
Date Created
2020/01/20
Author

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