TFSA Investors: Why it's Time to Accumulate Canadian National Railway (TSX:CNR) Stock

Description

Your Tax-Free Savings Account (TFSA) is meant for investing, not speculating on moonshot plays to get rich quickly. By speculating rather than investing with your TFSA, you risk realizing substantial losses that can't offset any of your gains elsewhere.

And even if you do find success with trading speculative securities, you could find yourself falling under the radar of the Canada Revenue Agency (CRA). In prior pieces, I described speculative trading activities conducted within a TFSA as a lose-lose proposition for beginner investors.

Be like Buffett

There aren't that many billionaire traders out there. They're heavily outnumbered by prudent long-term investors that care about protecting their wealth just as much, if not more, than growing their wealth. Given financial losses hurt around twice as much as gains of the same magnitude, it's only prudent to look to folks like Warren Buffett as an example of how you should be investing with your hard-earned money.

Consider easy-to-understand businesses like **CN Rail** (TSX:CNR)(NYSE:CNI), one of the few stocks that I'm comfortable buying whenever a significant dip presents itself. Given CN Rail is the backbone of the Canadian (and North American) economy, there will be the inevitable bumps in the road as slowdowns, recessions, and all the sort *always* occur.

CN Rail is a business that's robust enough to come roaring back when the tides turn, though. And given its ridiculously wide moat as a rail with tri-coastal access, investors can feel comfortable buying and holding the stock for life without having to worry about the possibility of technological disruptors stealing meaningful market share away from the rail kingpin that we know as North America's most efficient railway.

Moreover, there are huge benefits to holding a stock like CN Rail in your TFSA, and not trading it. The company is the epitome of a dividend growth king, with dividend hikes rewarded to shareholders through the ups and downs.

The dividend yield currently sitting at 1.8% may seem average, but factoring in years worth of nearly guaranteed dividend hikes, the yield based on your invested principal could grow to become a significant contributor to your income in retirement.

Better than expected

With a sluggish Canadian economy that could drag into 2020, CN Rail has set a low expectation bar for itself in the year ahead. Given CN Rail has a reputation for pole-vaulting past expectations, I'd look for the stock to make up for lost time, as the company looks to impress in spite of the challenging industry environment. Free cash flow is expected to surge to $3–$3.3 billion this year, up from $2 billion in 2019, while EPS growth is expected to be in the mid-single digits.

As management looks to further improve upon its operating ratio, I wouldn't rule out blow-out numbers that could send shares of CN Rail to $150 (18% upside from today's levels) by year-end.

Shares currently trade at 20.5 times next year's expected earnings, 6.2 times sales, and 15.5 times cash flow, all of which are in line with historical average valuations. With the likelihood of surpassing the firm's conservative year-ahead guidance, though, I do see a bit of multiple compression, so the stock actually looks like a bargain at $127.

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