Dividend Growth Investors: Should You Buy CN Rail (TSX:CNR) Stock Amid Blockades?

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) has really been feeling the impact of the sluggish Canadian economy over the past year, with shares underperforming the **TSX Index** over the past year. To make matters worse, the company had been dealt a lousy hand of unique issues that have served to exacerbate recent economic-driven pressures further.

First, we had the eight-day strike that took a bite out of the last quarter, and now we've got pipeline protesters starting a blockade on CN's Eastern Canadian rail network that's caused yet another disruption to CN's day-to-day operations.

It doesn't matter how terrific CN's management team is; the company has been feeling the effects of exogenous factors of late, which hasn't boded well for CN stock – a stock that's remained flat for nearly a year.

The company recently announced the temporary layoff of approximately 450 workers amidst the blockade (VIA Rail also temporarily laid off nearly 1,000). Management noted that it's ensuring a "progressive and methodical" halting of operations and that things will be up and running again once the blockade inevitably ceases.

The stock's reaction in response to the blockade hasn't been too pronounced. Shares are still within 3.5%, a stone's throw away from all-time highs, but should the blockade continue longer than expected and management comes out with a mild guidance downgrade, we could witness CN Rail fall into yet another correction (a peak-to-trough decline of at least 10%).

Mind the bumps!

CN Rail stock can get pretty noisy. It’s been a much choppier ride for investors over the last few years, and investors should brace for more of the same in 2020. The company is economically sensitive andis more exposed to exogenous issues that most other wide-moat businesses.

Despite the perfect storm of disruptive exogenous events, however, CN Rail is a terrific buy for long-term dividend-growth investors who are more concerned about growing their income stream and less about trying to make a quick buck.

The stock currently sports a 1.9%-yielding dividend, which is well positioned to continue growing at an above-average annual rate. Management is targeting free cash flow of $3-3.3 billion for 2020 as of the fourth quarter, and although there have been disruptions such as the recent blockade, it’s important to remember that such interruptions to operations are temporary.

Once CN gets back up to full speed, those who threw in the towel on the name as its shares stagnated will be likely be kicking themselves in a breakout scenario.

While there are operational challenges and macro headwinds, management will rise to the challenge to prove to the world why CN Rail still deserves the title of North America’s most efficient railway.

Foolish takeaway

At writing, CN stock trades at 19.8 times next year’s expected earnings and 5.9 times sales. That’s not exactly a cheap stock, even given the recent bout of headwinds.

With muted expectations by many analysts, though, the company is in a position to surprise everybody on Bay Street.

For now, however, CN stock has gone to sleep. If you’re in the market for a Dividend Aristocrat at a reasonable valuation, now may be the time to act before the company is able to get back to its outperforming ways.

While the stock may be trailing the TSX Index of late, I don’t think the underperformance will last until year-end.

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