TFSA Investors: This Top Dividend Stock Is a Must-Buy in This Downturn

Description

In the recent global selloff in equities, many top dividend stocks have become quite attractive. For long-term investors, such as those using their Tax-Free Savings Account (TFSA) to invest in, here's a golden opportunity to buy stocks which have become cheap.

One way to prepare your buying list for your TFSA is to focus on those stocks that regularly increase their dividends. Usually, these are the companies with strong cash generation capabilities because of the nature of their businesses.

Look for a sector in which only a few players dominating the market in which it's not easier for new competitors to build and invest in infrastructure required to serve customers.

Canada's largest railroad company, **Canadian National Railway Co.** (TSX:CNR)(NYSE:CNI) is one of my favourites from this group of stocks.

After trading near a record high earlier this year, CN Rail stock has fallen about 8% in the past one month. Trading at $113.96, this top dividend stock is now close to the 52-week low.

What makes this stock quite attractive amid ongoing market volatility is that CN enjoys a unique competitive advantage in the 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. This wide economic moat makes CNR a stock that has the power to defend its business, while continuing to pursue growth.

Income and growth combination

Another reason I like CNR stock is that it offers a great combination of growth and income. 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 the 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. 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.

Canada's recent rail blockades also played a role in the stock's recent selloff, choking train traffic in Eastern Canada for most of February. That disruption is now over, however, and the company hasn't changed its financial outlook for the year.

That said, there could be weakness for stocks tied to the economy, as the spread of the coronavirus slows trade and economic growth globally. But TFSA investors should be ready to deploy their money in the next few weeks as this top dividend stock becomes more attractive. Currently, it's offering about 2% dividend yield with the price-earnings multiple of 19.55.

Over the past 10 years, CNR stock has delivered more than 300% growth, including dividends, to long-term investors.

Bottom line

Trading at $113.94 a share with a 12-month trailing price-to-earnings multiple of 19, CNR stock looks expensive, given the current economic environment. 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
2025/07/01
Date Created

2020/03/04
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