$10,000 in This TSX Stock Will Earn You $10,000 in Dividends in 20 Years

Description

If you want a dividend stock that also offers strong capital growth prospectS, you may have to compromise on one thing: the dividend yield. If a stock's value keeps appreciating, the company might have to increase dividend payouts at an unsustainable rate.

Chasing yield is a good enough strategy, especially during market downturns when companies are temporarily trading below their fair value and yields are high. But if you only look at the yield, you might not profit as much from a dividend stock as you might think, especially when it comes to Dividend Aristocrats. A better metric to look at would be the dividend-growth rate.

A Dividend Aristocrat

One good example of low yield and decent growth rate is **Canadian National Railway** (TSX:CNR)(NYSE:CNI). The company has been growing its dividend payouts for over two decades, and it's one of the longest standing Dividend Aristocrats in the transportation sector. If we count in the current one, the company increased its dividends through two major market crashes.

Currently, the company is offering a very modest yield of 2.04%. But it has grown its dividends from $0.375 per share per quarter in 2016 to $0.575 per share per quarter in 2020. That's 53% growth in the past five years, and the CAGR comes out to 8.9%.

Currently, a $10,000 investment in the company will earn you just $204 a year. But if the company keeps growing its dividends by about 8.9% every year, you might easily be earning $1,000 a year off dividends in 20 years. Your accumulated dividend earnings would exceed your capital (about $10,300).

Even if we consider this quarter's dividend growth of 7%, which has been the lowest in the past five years, your 20 years of accumulated dividend earnings would still be around $8,300.

The stock

Canadian National Railway is currently trading at $114.2 per share, which would get you about 87 stocks from your $10,000 investment (or 87.6 if you consider fractional stocks). It's not a rapidly growing stock, but its five-year returns (dividend adjusted) are still a decent 58.8%. The payout ratio of the company is very stable, at 35.45%.

The company reported free cash flow of US$573 million (over two times of what it was in 2019) in the first quarter, and its revised projection for the year is still about $2.5 billion in free cash flow for the year. The return on equity is at 24.4%, and the net income margin is 29.8%.

The railway connects parts of the country and the U.S. with its 19,600-mile tracks. Despite the current and possibly near-future shortage of revenue generation from its transportation wing, it still has a strong footing thanks to its massive logistic operations.

Foolish takeaway

Investment is a long-term game, and that's especially true when you are building part or whole of your portfolio using dividend stocks. If you are leveraging more on future growth instead of starting a dividend-based income, you may want to consider a dividend-reinvestment plan. It will ensure that you'll have a larger number of shares and, consequently, a more substantial dividend income in the future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/05
Date Created
2020/05/16
Author

adamothman