All Aboard the Dividend-Growth Train!

Description

Railroads such as **Canadian National Railway** (TSX:CNR)(NYSE:CNI) represent some of the most lucrative, yet totally misunderstood investment options on the market. At first glance, railroads appear to be anything but a viable investment. They appear as long, never-ending lines of slow-moving freight. Further to this, the frequent stereotype labels railroads as outdated, low-tech remnants from a time long ago.

In reality, that couldn't be further from the truth. Canadian National has plenty to offer investors. Here's a look at some of those key advantages, including what can only be called a dividend-growth train.

What makes Canadian National a good investment?

To answer that question, let's first start with what the railroad does. In short, Canadian National hauls freight. That freight can be anything from crude oil, wheat, raw materials, precious metals, and chemicals to automobiles and any type of manufactured good. Contrary to the stereotype noted above, railroads are vital parts of the North American economy. In fact, railroad networks are so important to us that they are often compared with arterial veins for the entire economy.

In terms of size, Canadian National's track network is one of the largest in North America. Coincidentally, Canadian National's massive network also happens to be the only railroad with direct access to three coastlines. This is a major competitive advantage over Canadian National's peers. In total, the railroad hauls a whopping $250 billion worth of goods each and every year.

Worth noting is that Canadian National's freight is well diversified so that a drop in one type of freight can be offset by growth in another. These factors collectively provide a massive defensive moat around Canadian National's business, which only solidifies the stock as a great investment option.

In terms of results, during the most recent quarter, Canadian National reported revenues of $3,656 million. When compared with the same quarter last year, the railroad realized a 2% or $72 million gain. Diluted EPS for the quarter came in at $1.43 per share, reflecting a solid 17% gain over the same period last year.

Canadian National's stable business and solid results also help the railroad provide investors with an impressive dividend.

More on that dividend-growth train

When determining whether a dividend is a great addition to your portfolio, investors often look solely at the yield. This bottom line rarely works well, and there are other factors that investors need to review as well. In the case of Canadian National, the railroad offers investors a quarterly dividend that carries a yield of 1.68%. While that's not the lowest yield on the market, it hardly carries the mantle of being a stellar income stock, at least initially.

The key to unlocking that dividend-growth train lies in being patient. The railroad has a long-established history of providing investors with an annual bump to its dividend. At the same time, the stock has been chugging along, seeing some phenomenal growth over the years.

By way of example, over the past five-year period, Canadian National has seen its stock price surge over 80%. Over the same period time period, Canadian National's dividend has steadily risen, going from $0.375 to $0.615. The most recent uptick came in the form of a 7% hike that was reflected this month.

In other words, if you have a long-term timeline, you may want to hop on the dividend-growth train.

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