CN Rail: The Dividend-Growth Stock Looks Unstoppable After Q2 Beat

Description

Dividend-growth stocks are terrific plays to buy and hold for long-term-focused TFSAs (Tax-Free Savings Accounts) or RRSPs (Registered Retirement Savings Plans). They tend to have sizeable moats protecting their share of economic profits, with proven managers that know how to raise the bar on sales and earnings growth over time.

Though some of the fastest dividend growers may not have the largest yields out there, the payout promises a raise every single year. Over the years, these seemingly minor raises will add up!

In 10-20 years, a mere 1.8% yielder like **CN Rail** (TSX:CNR)(NYSE:CNI) could yield north of 4% based on your invested principal. Of course, topping up on shares on those inevitable dips could affect your cost basis and average yield. So, your mileage may vary. In any case, I think CN Rail looks like an incredible dividend-growth bargain that — like a freight train — will be tough to stop in its tracks following its stellar quarterly earnings results.

CN Rail powers higher after Q2 beat

Shares are up around 17% off their recent June lows and are less than 6% from their all-time high just north of $170 per share. CN Rail's second-quarter (Q2) results were stellar and may be a sign of things to come, as its new CEO Tracy Robinson looks to drive efficiencies through the roof.

CN's Q2 earnings per share (EPS) numbers came in at $1.93, well above the $1.75 that analysts expected. The $4.2 billion in reported revenue was also 13.5% higher quarter over quarter.

Undoubtedly, CN Rail has a track record of exceptional performance in the industry. During the last few years, it lost its way, as COVID headwinds and other issues weighed heavily. With a recession looming, the company faces a new slate of challenges. In any case, CN's new chief executive officer (CEO) seems more than willing to make the right investments to bolster the firm's long-term growth prospects and keep the operating ratio (a performance metric used by railway firms) below a certain threshold (currently set at 60%).

CN's new CEO could mean all the difference

Powering the robust second quarter was strength in grain shipments and greater efficiencies in its intermodal network. Indeed, Robinson is pushing CN Rail to focus on minimizing congestion and keeping everything on track. Scheduled railroading is no easy task, but Robinson seems more than up to the task.

I think the Q2 results will be just the start, as new management looks to get back to its outperforming ways.

As CN looks to drive down its operating ratio (lower is better), I'd look for consistent double-digit percentage dividend hikes every single year. Sure, the 1.8% yield may not seem like a heck of a lot today. But just wait a decade, and the payout could grow to become a major contributor to your future TFSA or RRSP passive-income stream.

The Foolish bottom line

It's been a while since CN Rail really impressed the Street. Tracy Robinson is a magnificent CEO with a lot to prove. Her experience in the midstream energy business may not be all so different, after all. At the end of the day, it's about moving goods across long distances in a safe and efficient manner.

At 22.1 times price-to-earnings (P/E), CN Rail trades at a discount to the rail industry average P/E of 27.1. Should the beats continue, I expect the discount to shrink considerably.

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