2 Dividend-Growth Stocks for TFSA Investors

Description

Canadians are using the tax-fee savings account (TFSA) to help them plan for retirement.

How does it work?

Investors buy dividend-growth stocks and use the tax-free distributions to purchase additional shares. This sets off a powerful compounding process that, over several years, can turn a modest initial investment into a substantial retirement nest egg.

When the time comes to start spending the dividends or sell the shares, all of the gains go straight into your pocket!

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Fortis Inc.** (TSX:FTS) to see why they might be solid TFSA picks.

TransCanada

TransCanada had a tough run in 2015, but the stock has staged a solid rebound this year, and more gains could be on the way.

What's the scoop?

The company sold off as a result of the downturn in the energy market and President Obama's rejection of the Keystone XL pipeline.

The oil rout is putting pressure on new development, and that can have an impact on demand for new pipelines in the near term, but TransCanada has a large backlog of projects on the go to keep it busy until the energy sector recovers.

In fact, the company has $25 billion in near-term developments that should help support dividend growth of at least 8% through 2020.

A large portion of the portfolio is the result of organic growth. The remainder came as a part of the company's recent US$13 billion acquisition of Columbia Pipeline Group.

The smaller deals are important, but investors should still keep an eye on the company's ongoing mega-projects.

Keystone will likely remain on the shelf if Hillary Clinton wins the election, but a Trump victory could bring the project back to life.

Here in Canada, the Energy East pipeline continues to work its way through the negotiation process, but progress is slowly being made, and there is a reasonable chance the project will eventually be built.

At the moment, I don't think the potential revenue growth from Keystone and Energy East is fully priced into the stock.

TransCanada pays a quarterly dividend of $0.565 per share for a yield of 3.8%, so investors are getting a decent return even after the 33% jump in the stock price year-to-date.

What about long-term gains?

A $10,000 investment in TransCanada 15 years ago would be worth $56,000 today with the dividends reinvested.

Fortis

Fortis is a natural gas distribution and electricity generation company with assets in Canada, the United States, and the Caribbean.

Like TransCanada, Fortis has grown through a combination of organic projects and strategic acquisitions.

In 2014 the company acquired Arizona-based UNS Energy for US$4.5 billion. Integration of the assets went well and the additional revenue helped support a 10% increase in the dividend last year.

Fortis is currently in the process of buying **ITC Holdings Corp.**, a U.S. transmission company. The deal is expected to close by the end of 2016, and investors should start to see the benefits next year.

Fortis is a popular stock because it gets 94% of its revenue from regulated assets. This means cash flow should be reliable and predictable, which is great for dividend investors.

Management has raised the payout every year for more than four decades, and annual dividend growth is expected to be about 6% over the next four years. The current distribution provides a yield of 3.5%.

What about returns?

A $10,000 investment in Fortis 15 years ago would be worth $88,000 today with the dividends reinvested.

Is one a better TFSA pick?

Both stocks are solid long-term bets with strong track records of dividend growth.

Earlier in the year I would have picked TransCanada, but the pipeline operator has rallied so much that I would probably call it a coin toss between the two names today.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. TSX:FTS (Fortis Inc.)
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