TFSA Investors: 2 Dividend-Growth Stocks to Help You Save for Retirement

Description

Canadians are using the Tax Free Savings Account (TFSA) to set aside cash for a variety of reasons.

One popular strategy is to buy dividend-growth stocks and reinvest the distributions in new shares.

Why is this a smart move?

The TFSA structure allows Canadians to reinvest the full value of the dividends into additional shares, and when the time comes to sell the stocks, all of the gains are tax free.

The benefits are significant for investors of all ages, but the TFSA is especially advantageous for young Canadians who can invest for decades and potentially build a mountain of capital gains.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why they might be interesting picks.

Enbridge

Enbridge is a giant in the energy sector with extensive infrastructure running across Canada and through the United States.

The oil rout has pushed the big players in the industry to consolidate, and Enbridge has been active in the market with its recently announced plan to buy **Spectra Energy** for $37 billion.

The acquisition comes with significant natural gas distribution assets as well as a substantial backlog of commercially secured projects. When Spectra's development portfolio is added to Enbridge's, the combined company will have $74 billion in projects on the board.

Enbridge says $26 billion in new infrastructure will be completed in the medium term. As these assets go into service, the company should see revenue and cash flow increase enough to support annual dividend growth of at least 10% through 2024. The stock currently yields 3.7%.

A $10,000 investment in Enbridge 15 years ago would be worth $103,000 today with the dividends reinvested.

Royal Bank

Royal Bank earned just under $10 billion in profit last year and is well on the way to break through the milestone in 2016.

That’s impressive given the economic headwinds facing the Canadian banks.

Royal Bank’s success can be attributed to its balanced revenue stream. The company relies heavily on Canadian personal and commercial banking activities, but it also gets significant revenue from its wealth management, capital markets, and insurance operations.

Going forward, investors should see strong contributions from the United States through the company’s recent purchase of California-based City National for US$5 billion.

The deal provides Royal Bank with a strong platform to expand into the commercial and private banking segments in the U.S., and investors could see additional deals in the coming years.

Royal Bank has paid a dividend every year for more than a century. The current distribution yields 4%.

A $10,000 investment in Royal Bank 15 years ago would be worth $62,000 today with the dividends reinvested.

Is one a better bet?

Both stocks are attractive long-term picks for a TFSA.

Enbridge probably offers better dividend growth over the next few years, so I would make the pipeline company the first choice today.

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
4. TSX:RY (Royal Bank of Canada)

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