



2 Ideal Dividend-Growth Stocks for Your TFSA

Description

Tax-Free Savings Accounts (TFSAs) offer Canadians who are 18 and older the opportunity to set money aside and earn investment income without having to worry about the taxman, even when it's withdrawn.

Dividend-growth stocks are ideal investment options for your TFSA, so let's take a closer look at two that you could buy right now.

TransCanada Corporation

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) is one of the largest owners and operators of energy infrastructure in North America with over \$87 billion of assets as of September 30. Its portfolio includes over 90,300 kilometres of natural gas pipelines that tap into virtually every major basin in North America, natural gas storage facilities with about 664 billion cubic feet of capacity, and 17 power-generation facilities capable of generating 10,500 megawatts of electricity.

TransCanada currently pays a quarterly dividend of \$0.565 per share, representing \$2.26 per share on an annualized basis, giving its stock a beautiful 3.7% yield today.

As Foolish investors, we know we must always confirm the safety of a stock's dividend before investing, and this is a simple process with TransCanada because it provides a metric called "comparable distributable cash flow (CDCF)" in its earnings reports. In the first nine months of 2016, its CDCF totaled \$2.7 billion (\$3.68 per share), and its dividends paid on common shares totaled just \$1.16 billion (\$1.695 per share), resulting in a conservative 42.9% payout ratio.

On top of having a high and safe yield, TransCanada has a long track record of dividend growth, which is very important when it comes to building wealth. It has raised its annual dividend payment every year since 2000, including a compound annual growth rate of about 7% in that span.

TransCanada also has a dividend-growth program in place, which is a major plus. It expects annual dividend growth at the upper end of 8-10% through 2020, and I think there is a very good chance it will extend this target as 2020 nears.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT ([TSX:CAR.UN](#)), or CAPREIT for short, is one of Canada's largest residential landlords. It has ownership interests in 48,191 residential units, comprised of 41,748 apartment and townhome suites and 6,443 land-lease sites, located in and around major urban centres across the country.

It currently pays a monthly distribution of \$0.10417 per unit, representing \$1.25 per unit on an annualized basis, which gives its stock a rich 4.1% yield today.

Confirming the safety of CAPREIT's yield is very easy; all you have to do is look at its cash flow. In the first nine months of 2016, its normalized funds from operations (NFFO) totaled \$172.95 million (\$1.335 per unit), and its distributions totaled just \$121.74 million (\$0.925 per unit), resulting in a sound 70.4% payout ratio, which is at the low end of its target payout range of 70-80%.

Like TransCanada, CAPREIT offers distribution growth in addition to its high and safe yield. Following the payment of its November and December distributions, it will have officially raised its annual distribution for five consecutive years, and its 2.5% hike in June has it positioned for 2017 to mark the sixth consecutive year with an increase.

As mentioned previously, CAPREIT has a target payout range of 70-80% of its NFFO, so I think its strong growth, including its 4.7% year-over-year increase to \$1.335 per unit in the first nine months of 2016, and the fact that its payout currently sits at the low end of its target range, including the aforementioned 70.4% in the first nine months of 2016, will allow its streak of annual distribution increases to continue in 2018 and beyond.

Is one a better bet?

TransCanada and CAPREIT both have high and safe yields, track records of dividend growth, and strong dividend-growth prospects going forward, making them strong buys in my book. With this being said, I do not prefer one over the other today.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

3. TSX:TRP (TC Energy Corporation)

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