2 Top Canadian Dividend Stocks to Start Your TFSA

Description

Canadian investors are searching for ways to get the most out of their Tax-Free Savings Accounts (TFSAs).

One popular strategy is to own dividend stocks inside the TFSA and invest the distributions in new shares. Over time, the power of compounding can turn a modest initial sum into a serious pile of savings.

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

Fortis

Fortis owns natural gas distribution, electric transmission, and power-generation assets in Canada, the United States, and the Caribbean.

The company has grown through a mix of organic development and strategic acquisitions over the years with most of the recent investments targeting assets in the United States and Canada.

For example, Fortis bought Arizona-based UNS Energy for US$4.5 billion in 2014 and acquired ITC Holdings last year for US$11.3 billion. In Canada, Fortis just announced a deal to pick up two-thirds of the Waneta dam in British Columbia.

Fortis has a strong track record of dividend growth, and management plans to raise the dividend by at least 6% per year through 2021.

Investors should feel comfortable with the guidance, as Fortis has raised the payout every year for more than four decades.

The distribution currently offers a yield of 3.6%.

A $10,000 investment in Fortis 20 years ago would be worth about $114,000 today with the dividends reinvested.

Royal Bank

Royal Bank generated Q2 2017 fiscal net income of $3 billion. That's right, Canada's largest bank by market capitalization made about $1 billion per month in the latest quarter.

The success is an indication of the quality of the company's balanced revenue stream.

Royal Bank has strong personal and commercial banking, insurance, wealth management, and capital markets groups in Canada. The bank also has a solid foothold in the U.S. private and commercial banking segment through its 2015 purchase of City National.

Concerns about a housing bubble in Canada have some investors staying away from the banks.

Royal Bank's mortgage portfolio is large, but a significant portion of the loans are insured, and the loan-to-value ratio on the rest is low enough that house prices would have to tank before Royal Bank takes a material hit.

Management just raised the quarterly dividend by 5% to $0.87 per share, so the executive team can't be overly concerned about the earnings outlook.

The new distribution provides a yield of 3.7%.

A $10,000 investment in Royal Bank 20 years ago would be worth about $124,000 today with the dividends reinvested.

Is one more attractive?

Both stocks should be solid buy-and-hold picks for a TFSA dividend portfolio.

If you are in the camp that believes Canada's housing market is going to crash in the next few years rather than simply slow down at a controlled pace, Fortis is probably the safer bet today.

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aswalker