



A Top Dividend-Growth Stock for New TFSA Investors

Description

Young Canadians are using their Tax-Free Savings Accounts (TFSAs) to set aside some cash for retirement.

The strategy is a wise one, as the TFSA protects all earnings from the taxman and the full value of the dividends can be invested in new shares to take advantage of the power of compounding.

In addition, when the time comes to cash out, any capital gains go straight into your pocket.

What stocks should you buy?

The best companies to own have strong track records of dividend growth and operate in segments with high barriers to entry.

Let's take a look at **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) to see why it might be an interesting pick.

Attractive assets

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

The company has grown over the years through strategic acquisitions, and that trend continues.

Fortis recently purchased a two-thirds' stake in the Waneta dam in British Columbia for \$1.2 billion. Last year the company spent US\$11.3 billion to buy Michigan-based ITC Holdings, and in 2014, Fortis acquired Arizona-based UNS Energy for US\$4.5 billion.

Fortis gets the majority of its revenue from regulated operations, so cash flow should be both reliable and predictable.

In addition, these assets generate income for decades, and there is little chance of competing infrastructure being built to serve the same clients.

For example, the odds are slim that another company would run a new natural gas pipeline to your house or install a new electricity transmission network where one already exists.

Dividend growth

Management plans to raise the dividend by 6% per year through 2021.

Fortis has increased its payout every year for more than four decades, so investors should feel comfortable with the guidance.

Returns?

A \$10,000 investment in Fortis 20 years ago would be worth about \$110,000 today with the dividends reinvested.

The bottom line

Getting the same performance from Fortis over the next two decades is not guaranteed, but the strategy of buying top-quality dividend-growth stocks and investing the distributions in new shares is a proven one.

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