Retirees: 2 Canadian Dividend-Growth Stocks to Own for a Decade

Description

Pensioners are searching for reliable dividend stocks to boost their retirement earnings.

In the past, GICs and savings accounts paid enough interest to meet this need, but the era of low interest rates has forced investors to seek alternative ways to generate yield.

While interest rates have probably bottomed out, it will likely be years before investors can get reasonable returns again from guaranteed investments.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why they might be interesting picks.

TransCanada

TransCanada spent US$13 billion last year to acquire Columbia Pipeline Group in a deal that added new assets in the growing Marcellus and Utica shale plays as well as strategic natural gas pipeline infrastructure running from Appalachia to the Gulf Coast.

The deal also bumped up TransCanada's development portfolio to the point where the company now has $23 billion in near-term projects on the go that should support dividend growth of at least 8% through 2020.

In addition, the long-troubled Keystone XL pipeline might finally be built under the Trump administration. If the project goes through, investors could see a nice upgrade to dividend-growth guidance.

TransCanada pays a quarterly distribution of $0.625 per share for an annualized yield of 4%.

TD

TD is widely viewed as Canada's safest bank.

The reputation is due to the company's strong reliance on retail banking for the majority of its earnings, as the day-to-day personal and commercial banking segments tend to be less volatile than capital markets activities.

TD also has low direct exposure to the Canadian energy sector.

Investors are concerned the banks might be hit by falling house prices. It’s true that a total collapse in the market would cause some grief, but most pundits expect a gradual pullback.

TD’s Canadian residential mortgage portfolio is large, but 47% of the loans are insured and the loan-to-value ratio on the remaining mortgages is 49%. That means the housing market would have to drop significantly before TD had a material impact on results.

In the event the Canadian economy hits a rough patch, TD’s large U.S. operations should provide a nice hedge. The company actually operates more branches south of the border than it does in Canada.

Management is targeting adjusted earnings-per-share growth of 7-10% over the medium term. Rising interest rates can put a pinch on borrowers, but higher rates are generally beneficial for the banks, and investors might see TD hit the high end of the earnings-growth target.

TD has a strong track record of dividend growth, and that should continue. The current dividend yield is 3.7%.

Is one more attractive?

Both stocks are proven dividend-growth players with distributions that should be very safe. At this point, I would probably split a new investment between the two companies.

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