TFSA Investors: 2 Canadian Dividend-Growth Stocks for Your Retirement Fund

Description

Canadian investors are using their Tax-Free Savings Accounts (TFSAs) to hold dividend-growth stocks as part of their retirement planning. The strategy is a wise one, as the TFSA protects all earnings from the taxman, allowing investors to use the full value of any payments to acquire new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see why they might be interesting picks.

TransCanada

TransCanada purchased Columbia Pipeline Group last year in a US$13 billion deal that added strategic assets in the growing Marcellus and Utica shale gas plays as well as important pipeline infrastructure.

In addition, TransCanada's development portfolio increased to the point where the company has about $23 billion in near-term projects.

As the news assets are completed and go into service, TransCanada expects cash flow to increase enough to support dividend growth of at least 8% per year through 2020.

Regarding the mega-projects, the company's Keystone XL pipeline appears to be back on track after receiving a presidential permit from the United States earlier this year. Keystone had been shelved due to a rejection from the previous U.S. administration. If Keystone actually gets the final green light, investors could see upward revisions for projected cash flow and dividend increases in the coming years.

TransCanada's dividend currently provides a yield of 4%.

A $10,000 investment in TransCanada 20 years ago would be worth about $53,000 today with the dividends reinvested.

Fortis

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

The company has grown through organic development and strategic acquisitions, but asset purchases have been the main focus in recent years. For example, Fortis recently announced a deal to buy a two-thirds' stake in the Waneta dam in British Columbia. Last year, Fortis spent US$11.3 billion to acquire Michigan-based ITC Holdings.

Revenue and cash flow should increase as a result of the recent deals, and management plans to raise the dividend by 6% per year through 2021. Fortis has hiked the payout every year for more than four decades, so investors should feel comfortable with the guidance.

The stock provides a yield of 3.6%.

Long-term investors have done well with Fortis. A $10,000 investment in the company 20 years ago would be worth about $110,000 today with the dividends reinvested.

Is one more attractive?

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

Fortis tends to be more stable when the broader market hits a speed bump, so it would likely be the better choice for more conservative investors.

If you can handle a bit of extra volatility when things get messy in the energy sector, TransCanada probably offers better dividend-growth potential in the medium term.

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aswalker