TFSA Investors: 2 Dividend-Growth Stocks to Grow Your Income

Description

Canada's Tax-Free Saving Account (TFSA) is a great investment vehicle to grow your income without having to worry about the taxman.

And if you load up your TFSA with some quality dividend-growth stocks, you'll see how quickly your portfolio will grow with the power of compounding.

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With many employers phasing out pensions and other contributions, a portfolio of dividend-growth stocks can provide safe retirement income that should keep up with inflation.

Fortis Inc. (TSX:FTS)(NYSE:FTS) and **Atco Ltd.** (TSX:ACO.X) are the two dividend-growth stocks that you should consider for your long-term dividend portfolio. Let's find out why.

Payout history

When you start looking for quality dividend-growth stocks, one important step to separate the chaff from the wheat is to look for companies with long distribution histories.

Obviously, you can't just rely on the past to predict the future, but distribution hikes tell you about the management's priorities. So, if you find companies that already have strong growth track records, it's a strong signal that you're making a right pick.

Both Fortis and Atco have 43 and 22 years, respectively, of dividend hikes on their side, making them very attractive stocks for dividend-growth investors.

Fortis, with a 3.5% dividend yield and about 6% expected growth in its annual dividend payouts through 2021, is one of the best dividend-growth stocks in the Canadian market.

Between 2006 and 2016, Fortis's annual distribution increased from $0.67 to $1.53, which is a CAGR of 9%.

In the utility space, if you're looking for a slightly cheaper option, then ATCO is your best bet.

ATCO, through its 53% ownership of **Canadian Utilities Limited** (TSX:CU), is the owner of power plants, electric transmission infrastructure, and gas pipelines. It also owns 75% of a small division that manufactures temporary structures used on things like construction and oil and gas sites, with Canadian Utilities owning the other 25%.

This ownership structure makes ATCO very diversified and capable of producing robust cash flows.

ATCO's dividend yield at 2.85% has become very attractive after its shares declined ~11% in the past three months on concerns that Bank of Canada's interest rate hikes will diminish the investment appeal of utility stocks. Trading at $46 a share, its stock is down 14% down from the 52-week high, while the dividend yield is highest at least in the past five years.

Which one is better?

Both of these utilities have stellar dividend-growth histories. Very few Canadian companies can match those kinds of dividend-growth rates.

The recent pullback in ATCO stock price makes it a better buy when compared to Fortis if you have to pick one for your TFSA portfolio. For long-term buy-and-hold investors, both stocks make perfect sense.

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2. TSX:ACO.X (ATCO Ltd.)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:FTS (Fortis Inc.)

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Date

2025/08/14
Date Created
2017/09/07
Author
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