2 Dividend-Growth Picks for Your TFSA Stocking This Holiday Season

Description

The holiday season is upon us, and Canadian investors are searching for top-quality companies to add to their TFSA portfolios.

Buying the right dividend-growth stock for your TFSA can be a great gift. In fact, when the distributions are invested in new shares, it can be a gift that keeps on giving for years.

How?

Using the dividend payments to acquire new stock sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

Some companies even provide a discount on the share price for investors who use the dividend reinvestment plan (DRIP).

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

Fortis

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

The company has grown significantly in recent years as a result of two acquisitions in the United States. Fortis purchased Arizona-based UNS Energy in 2014 for US$4.5 billion, and added Michigan-based ITC Holdings last year for US$11.3 billion. Integration of the two companies went well, and the new assets are performing as expected.

Fortis recently increased its five-year capital plan by $1.5 billion to $14.5 billion, which will help raise the rate base to about $32 billion.

This should support continued dividend growth, which is targeted at 6% per year through 2022. Fortis has raised the payout every year for more than four decades, so investors should feel comfortable with the guidance.

The current payout provides a yield of 3.6%. Investors who enrol in the DRIP program get a 2% discount on new shares.

Enbridge

Enbridge has also been on the acquisition trail. The company closed its $37 billion purchase of Spectra Energy earlier this year in a move that created North America's largest energy infrastructure company.

Enbridge has about $32 billion in commercially secured projects on the go, of which $22 billion should be completed through 2020. As the new assets go into service, Enbridge expects cash flow to improve enough to support annual dividend growth of at least 10%.

The company plans to focus on its regulated businesses and has identified $10 billion in non-core assets that will be sold. About $3 billion will go on the block next year.

Management plans to use the proceeds to reduce debt and shore up the balance sheet, which should give investors more confidence to own the stock as interest rates rise.

At the time of writing, Enbridge provides a yield of 5.4%. The DRIP offers new shares at a 2% discount.

Is one more attractive?

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

At this point, Enbridge looks a bit oversold and probably offers better dividend-growth prospects in the medium term, so I would make the energy infrastructure giant the first choice today.

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