5 Top Canadian Dividend Stocks to Build a TFSA Retirement Fund

Description

Canadian investors are searching for ways to save for a comfortable retirement.

One popular strategy involves holding dividend-growth stocks inside a TFSA and using the distributions to purchase new shares. This takes advantage of a powerful compounding process that can turn a modest initial investment into a nice nest egg over the course of two or three decades.

Inside the TFSA, all distributions and capital gains are tax free, so you can reinvest the full value of the dividends, and when the time comes to cash out, any increase in the stock price is yours to keep.

Let's take a look at five of Canada's top dividend stocks.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

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

Recent acquisitions have focused on assets in the United States, and our southern neighbour is now home to more than half of the assets Fortis operates. This provides Canadian investors with a great way to get exposure to the United States through a Canadian stock.

Fortis has raised the dividend every year for more than four decades and plans to increase the payout by at least 6% per year through 2022. The current yield is 3.9%.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD is primarily known for its Canadian operations, but the company actually has more branches in the United States than it does in the home country, and the American operations generate more than 30% of TD's profits.

This provides a nice hedge against a potential downturn in the Canadian economy.

TD has a 20-year compound annual dividend-growth rate of about 10%, and investors should see the payout continue to increase at a steady pace.

TD's dividend provides a yield of 3.3%

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Enbridge bought Spectra Energy last year in a deal that created North America's largest energy infrastructure company.

Management has decided to focus on the regulated businesses and has identified $10 billion in non-core assets that will be sold. The proceeds will be used to reduce debt and beef up the balance sheet to help fund the capital plan.

Enbridge expects to complete about $22 billion in projects through the end of 2020 and is targeting annual dividend growth of 10% over that time frame.

The company has raised the payout consistently for more than two decades, so investors should feel comfortable with the guidance.

Enbridge provides an attractive yield of 5.4%.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

CN is the only rail operator in North America with routes that connect three coasts. This is a strong competitive advantage and is unlikely to change.

Why?

Merger attempts tend to run into regulatory roadblocks, and the odds of new tracks being built along the same routes are pretty slim.

CN's dividend yield is low, but the company has a 20-year compound annual dividend-growth rate of about 16%.

The company generates significant free cash flow and historically undertakes aggressive share-buyback programs.

BCE Inc. (TSX:BCE)(NYSE:BCE)

BCE bought Manitoba Telecom Services last year in a move that bumped the giant into top spot in the Manitoba market and set the company up for an expansion of its presence in the western provinces.

In addition, the company announced the acquisition of home-security provider AlarmForce and just launched Lucky Mobile, a low-cost prepaid mobile service.

BCE generates ample free cash flow to support the fat dividend and is big enough it can raise fees anytime it needs a bit of extra cash.

The stock provides a yield of 5%.

The bottom line

These stocks might not be overly exciting, but entertainment is not the focus when it comes to your pension.

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