TFSA Investors: 2 Dividend-Growth Stocks to Earn a Hike up to 10%

Description

Companies that regularly hike their dividends are some of the best investment avenues for investors building a nest egg through their Tax-Free Savings Account (TFSA).

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Getting steadily rising dividend payouts means your total return will be much higher when compared to stocks that don't raise their dividends. Dividends have contributed to about one-third of the TSX total return. Over the last 50 years, the TSX has returned a compound annual growth (CAGR) of 6.05% versus 9.05% when you include dividends. That's an extra 3% of return just due to dividends.

Let's have a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see how their dividend strategies are helping investors to build their income portfolios.

TransCanada

The Calgary-based TransCanada has a long history of rewarding its investors with growing dividends. This strength comes from the company's diversified energy assets, which produce hefty cash flows each year.

TransCanada runs a network of pipelines which ship natural gas and liquids. It also produces power and manages gas-storage facilities. Fueled by its growing asset base, TransCanada has been able to raise its dividend for 17 consecutive years.

Last year, TransCanada overcame a major hurdle in the construction of a major pipeline project, Keystone XL, when it got approved by the Trump administration. This project is part of the company's $48 billion in medium- to long-term projects. In the short to medium term, TransCanada has about $23 billion worth of projects that it aims to complete by the end of the decade.

According to the management, these projects are good enough to help the company to continue with its 8-10% dividend-growth plan each year through 2020. After an 11% pullback in its share price this year, TransCanada's annual dividend yield has reached 4.97%.

I think this is a very attractive level for TFSA investors to consider, given the company's robust growth agenda, which is likely to fuel gains in its stock price.

TD Bank

For long-term TFSA investors, TD Bank is another dividend-growth stock to consider. TD is among the top five Canadian lenders that dominate the domestic banking market and have provided consistent returns to its investors.

When it comes to dividends, TD distributes between 40% and 50% of its income in dividends each year. After an 11% increase in its payout this year, income investors in TD stock now earn a $0.67-a-share quarterly dividend, which translates into a 3.82% yield on yearly basis.

The bank is likely to grow its dividend payout between 7% and 10% each year going forward, as it benefits from diversified business operations, thanks to its aggressive growth in the U.S. The bank now runs more branches in the U.S. than in Canada, making it one of the top 10 lenders in the U.S.

Trading at $70.19 and with the trailing price-to-earnings multiple of 12.97, TD stock looks slightly attractive after it fell ~9% from the 52-week high in recent weeks. For any TFSA investor, this bank is a solid addition to earn growing dividend income.

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