New Investors: 2 Top Canadian Dividend-Growth Stocks to Own in Your TFSA for Decades

Description

Young Canadians are searching for ways to set some serious cash aside for retirement.

This wasn't such a big issue when their parents or grandparents were the same age, but the working world has changed over the years, and some of the traditional wealth generators might not be as reliable.

What's going on?

Contract work is more common than in the past, which means people have to look after their own retirement planning. When a full-time gig is secured, the pension benefits are more likely to be defined-contribution, rather than defined-benefit plans.

In addition, people who'd bought houses 30 years ago have built up some nice equity in their homes, which can serve as safety nets for retirement. People who buy today probably won't see the same appreciation of the value of the properties over the next three decades.

Fortunately, there are ways for young people to save for retirement. One popular strategy involves owning dividend-growth stocks inside a TFSA and investing the distributions in new shares to take advantage of the power of compounding.

Let's look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see why they might be interesting picks.

TD

TD is widely viewed as being the safest of the big Canadian banks due to its heavy focus on retail banking activities. Most people are familiar with the Canadian operations, but TD actually has more branches south of the border than it does in the home country.

The American operations, which run right along the east coast from Maine to Florida, generate more than 30% of TD's net income. This provided investors with a nice hedge against any potential downturn in the Canadian economy.

Some investors are concerned rising interest rates could trigger a crash in the Canadian housing market and hit the banks. It's true that a wave of selling would be negative, but things would have to get pretty bad before TD sees a material impact. Insured mortgages represent 41% of the portfolio, and the loan-to-value ratio on the uninsured mortgages is 51%.

TD's compound annual dividend-growth rate is better than 10% over the past 20 years. The company recently raised the payout by 12%, and investors should see the trend continue in step with anticipated earnings-per-share growth of 7-10% over the medium term.

Suncor

Suncor is Canada's largest integrated energy company, with oil sands, refining, and retail assets. The downstream businesses provide a good hedge against rough times in the production segment and are a big reason the stock held up so well during the downturn.

Suncor took advantage of its strong balance sheet to add strategic assets during the rout. The company also worked hard to reduce operating costs and pushed ahead with major developments, including Fort Hills and Hebron, which were completed in late 2017.

Suncor isn't known for being a dividend play, but the energy giant raised the payout earlier this year by 12.5%. The completion of Fort Hills and Hebron, in combination with rising oil prices, should support additional dividend hikes down the road.

The bottom line

Both stocks should be solid buy-and-hold picks for a dividend-focused TFSA. TD provides good exposure to the U.S., while Suncor is a quality pick to benefit from a recovery in the energy sector.

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Date
2025/07/26
Date Created
2018/05/07
Author
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