TFSA Investors: 2 Overlooked Stocks to Start Your Retirement Portfolio

Description

Young Canadians are using their TFSAs to put aside some cash for retirement.

One strategy involves holding stocks in top Canadian companies and investing the distributions in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

Let's take a look at two Canadian companies that might not be obvious picks today.

Telus Corporation (TSX:T)(NYSE:TU)

Telus often sits in the shadows of its peers due to its decision to stay out of the media game. Time will tell if the lack of TV channels, sports teams, and radio stations will hurt the company, but for the moment, it appears Telus is doing just fine.

First-quarter operating revenue increased 6% on a year-over-year basis, as the company continues to add new TV, internet, and mobile subscribers at a steady rate. Part of the success is attributed to the strong focus on customer support. Telus regularly reports the industry's lowest postpaid mobile churn rate.

Telus invests significant funds to ensure the network infrastructure is world class, so the company should hold its own in the market as data demand increases.

On the dividend front, Telus just raised the payout for the 15th time since 2011. The company is targeting a 7-10% increase per year through 2019. The current distribution provides a yield of 4.6%.

A $10,000 investment in Telus 15 years ago would be worth more than $75,000 today with the dividends reinvested.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ)

CNRL might be Canada's best pick for investors who want exposure to the Canadian oil and gas sector through a solid business with a strong balance sheet and a growing dividend.

The company owns oil sands and conventional oil production businesses, and it's also western Canada's largest natural gas producer. Management took advantage of the downturn to add strategic assets to the portfolio, and those decisions should pay off as the energy sector recovers.

CNRL reported Q1 2018 adjusted net earnings of $0.71 per share compared to $0.25 per share in the same period last year. The business generated $1.22 billion in free cash flow, before dividends, and roughly $880 million after the dividend commitments.

Investors just received a 22% increase in the dividend to $0.335 per share. At the time of writing, that's good for a 2.9% yield.

A $10,000 investment in this stock just 15 years ago would be worth about $90,000 today with the dividends reinvested.

The bottom line

Young investors can set some serious cash aside for retirement by using their TFSA to hold dividend-growth stocks. There is no guarantee Telus and CNRL will deliver the same results over the next 15 years, but the two companies remain attractive picks.

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Date

2025/08/25
Date Created
2018/05/15
Author
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