2 Dividend Growth Stocks That TFSA Investors Will Find Attractive

Description

If you want to start saving for retirement, it's better to start investing through your Tax-Free Savings Accounts (TFSA) early in your work life. The more you save, the better rate of return you'll get and more money you'll have to spend during your golden years.

Investing in dividend growth stocks is one of the ways to achieve that goal. Stocks that regularly pay dividends and grow them over time are the best investments to compound your returns and hedge against inflation.

Keeping this theme in mind, I have picked Canada's two best dividend growth stocks from two different sectors to get you started on your TFSA. Let's find out which one is better for your portfolio.

Royal Bank of Canada

Canadian banks are solid, low-risk dividend stocks that rarely disappoint income-seeking investors. Among the top five Canadian banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has a unique position. It is the nation's largest bank with more than $1.2 trillion in total assets and a very strong presence in the U.S.

This robust franchise has helped RBC to consistently pay growing dividends to its shareholders. It has paid distributions every year since 1870, a track record, which puts this bank among the top dividend-paying companies in the world. In the second quarter, RBC posted an 11% rise in its earnings, helped by strong growth at its wealth management and retail businesses.

Trading at $99.41 with an annual dividend yield of 3.78%, RBC is a stock that you could stash in your TFSA to earn growing payouts. Its strong position in Canada and abroad makes the lender an attractive buy for new investors with a long investing horizon.

Suncor Energy Inc.

Investing in energy stocks is usually not recommended for income-seeking investors. Energy stocks are more volatile due to their strong correlation with oil. But Suncor Energy Inc. (TSX:SU)(NYSE:SU) is one integrated energy company that I like for many reasons.

First, its high-quality assets, including oil sands extraction, refining, and marketing the energy products, make its revenue model very diversified, providing a good hedge against the extreme volatility in energy markets.

Second, the company has become a much leaner and efficient after a massive restructuring since the 2014 oil downturn. During the past five years, Suncor's cost to dig a barrel of crude oil has fallen to $23.80 in 2017 from $37 in 2013, representing the lowest level achieved in more than a decade.

Trading at $52.52 and with an annual dividend yield of 2.9%, Suncor stock has surged 24% in the past year as oil prices recovered, brightening the outlook of energy companies. Apart from a potential of capital gains, Suncor stock also has a great appeal for income investors.

This year, the oil giant hiked its quarterly dividend by 12.5% to $0.36 per share, marking the 16th year of consecutive annualized dividend increases.

The bottom line

Investing in dividend-growth stocks, such as RBC and Suncor, is a tested way of generating stable income. By finding similar companies, you can slowly build your TFSA portfolio with a decent income potential.

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Date
2025/06/30
Date Created
2018/06/10
Author
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