2 Top Canadian Dividend-Growth Stocks to Build RRSP Wealth

Description

If you are fresh out of school or are in the early years of your career, planning for retirement might not be on the top of your priority list today.

That is understandable, as life in the modern working world is arguably more complicated than it might have been for your parents. Contract work is common, housing is crazy expensive in the major cities, and education loans might be hanging over your head.

However, time is the biggest factor when it comes to successfully building a substantial retirement fund, and starting early can mean you have to invest less to achieve the desired outcome.

One popular strategy involves putting money into RRSP accounts. This reduces current taxable income and begins the process of saving for the golden years. When the contributions are used to buy top-quality dividend-growth stocks and the distributions are reinvested, savers can take advantage of a powerful compounding process that could turn a modest sum into a pile of retirement cash over time.

Let's take a look at two top stocks that deserve to be on your radar.

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

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

The company has grown over the years through organic development and strategic acquisitions and is now a major player in the sector.

Regulated assets generate most of the revenue, which means cash flow should be reliable and predictable. In addition, Fortis is working through a five-year $15.1 billion capital program, which is expected to boost the rate base to $33 billion.

As a result, management sees cash flow improving enough to support annual dividend growth of at least 6% per year through 2022. The company has raised the payout every year for more than four decades, so investors should be comfortable with the guidance. The current payout provides a yield of 4%.

A $10,000 investment in Fortis 20 years ago would be worth more than $75,000 today with the dividends reinvested.

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

CN is the only rail operator in North America with lines connecting three coasts. This is an important advantage that should remain in place, as merger attempts in the rail industry tend to hit regulatory roadblocks, and the odds of new lines being built along the same routes are pretty slim.

CN generates significant free cash flow and has a strong track record of sharing the profits with investors. The compound annual dividend-growth rate over the past 20 years is about 16%.

A $10,000 investment in CN two decades ago would be worth more than $215,000 today with the dividends reinvested.

The bottom line

The strategy of owning top-quality dividend stocks and investing the distributions in new shares is a proven one. Canadian savers who begin the process early and have the discipline to stick it out could find themselves with a substantial nest egg when the time comes to retire.

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