TFSA Investors: 3 Top Canadian Dividend Stocks to Start a Retirement Fund

Description

Canadians are searching for ways to set aside adequate funds to support a comfortable retirement.

One popular strategy involves owning top dividend stocks inside a TFSA and using the distributions to acquire additional shares. This takes advantage of a powerful compounding process that can turn modest investments into impressive nest eggs over time.

Let's take a look at three Canadian companies that might be interesting picks today.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank reported fiscal Q2 2018 net income of $3.06 billion, representing a 9% increase over the same period in 2017. Yes, you read it right: Royal Bank generates about $1 billion in profit per month.

The company's success is tied to its balanced revenue stream, with strong operations in personal and commercial banking, wealth management, investor and treasury services, capital markets, and insurance.

Royal Bank has a strong track record of dividend growth, and that trend should continue in step with rising earnings. The company raised the quarterly payout earlier this year by $0.03 to $0.94 per share. That's good for an annualized yield of 3.75%.

A $10,000 investment in Royal Bank 20 years ago would be worth more than $90,000 today with the dividends reinvested.

Suncor Energy Inc. (TSX:SU)(NYSE:SU)

Suncor is primarily known for its oil sands operations, but the company also has refineries and more than 1,500 Petro-Canada retail locations. The integrated business structure makes Suncor somewhat unique in the Canadian energy sector, and the diversified revenue stream is a big reason the stock held up so well during the oil rout.

Suncor recently completed the Hebron and Fort Hills development projects. As production ramps up, investors should see revenue and cash flow increase. In addition, Suncor took advantage of the downturn to add strategic assets at attractive prices, so the company is positioned well to take advantage of the recovery in the oil market.

Suncor raised its dividend by 12.5% for 2018. The payout currently provides a yield of 2.75%.

A $10,000 investment in Suncor 20 years ago would be worth more than $110,000 today with the dividends reinvested.

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

CN is literally the backbone of the U.S. and Canadian economies, with tracks connecting three coasts. The company has a broad range of business segments, ranging from grain and coal to lumber, cars, intermodal, and crude oil. When one group has a rough quarter, the others normally pick up the slack. In addition, CN gets a significant part of its revenue from the U.S. operations, providing investors with nice exposure to the American economy.

CN generates carloads of free cash flow and is generous when sharing the profits with investors. In fact, the company has a compound annual dividend-growth rate of about 16% over the past 20 years.

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 buying quality dividend-growth stocks and reinvesting the distributions in new shares is a proven one. There is no guarantee Royal Bank, Suncor, and CN will deliver the same returns over the next 20 years, but the three companies should continue to be solid buy-and-hold picks for a TFSA retirement fund.

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