A Dividend Growth Stock to Charge Your TFSA

Description

Investing in stocks that regularly hike their dividends is an essential first step if you're just starting your Tax-Free Savings Account (TFSA) with an aim to build long-term wealth.

The companies that reward their investors by paying dividends are the ones that usually generate higher returns over a long period.

They are typically mature companies with boring business that have been in operation for many decades. This area of the market doesn't get much attention as many new investors want to make high returns by investing in internet stocks or companies in a high-growth trajectory. That strategy works just fine for those whose aim is quick capital appreciation.

But if your aim to build an income stream that's reliable and less risky, then investing in old-fashioned dividend stocks should take preference. Studies have shown that dividend growth stocks have delivered market-beating performance over long periods.

Dividend-paying stocks produced ~15-fold better returns than non-dividend-paying companies between 1972 and 2014, according to a research by the wealth management division of **Goldman Sachs Group, Inc.**

Here is a Canadian top dividend-growth stock that you can consider to buy through your TFSA as you begin your saving journey.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has great income appeal for TFSA investors due its solid position both in Canada and the U.S. TD is among the top five Canadian lenders that dominate the domestic banking market. In the U.S., it's among the 10 top banks with the largest branch networks.

Due to this diversified operations, TD Bank has provided superior returns to its shareholders and outperformed its peers. Its shares have surged 18% in the past 12 months, while the **eight-company S&P/TSX Commercial Banks Index** rose 8.8% in this period.

After an 11% increase in its dividend this year, income investors in TD stock now earn a $0.67-a-share quarterly dividend, which translates into a 3.5% yield on yearly basis.

The bank plans to grow its dividend payout between 7% and 10% each year going forward, as it benefits from diversified business operations thanks to its aggressive growth in the U.S. The bank now runs more branches in the U.S. than in Canada after spending $17 billion on acquisitions.

In the second-quarter earnings report, TD showed how consistent it has been in exceeding expectations. The bank's earnings per share, excluding one-off items, rose to $1.62 in the quarter to March 31 compared with $1.34 a year ago. Analysts had, on average, forecast earnings per share of $1.50.

The bottom line

Trading at $77 at the time of writing, TD stock doesn't come cheap. With the price-to-earnings multiple of over 13, its stocks looks fairly valued after a strong post-earnings rally. Still, TD is a great pick for your TFSA portfolio, as it has a lot of room to hike its dividend.

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