# TFSA Investors: 2 Top Canadian Dividend-Growth Stocks to Tuck Away for Decades

## Description

Canadian savers can use the Tax-Free Savings Account (TFSA) to reach a variety of financial goals.

Income investors take advantage of the tax-free status to pocket the full value of distributions. Younger investors can benefit from the structure to invest dividends in new shares. This is arguably the most attractive use of the TFSA, as it enables savers to tap the power of compounding and potentially build substantial retirement portfolios.

Let's take a look at **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Toronto-Dominion Bank** (TSX:TD)( NYSE:TD) to see why they might be interesting picks.

**Fortis**

Fortis is a major player in the North American utility sector with $50 billion in assets located in Canada, the United States, and the Caribbean.



More than 90% of the revenue is generated by the businesses that operate in regulated sectors, providing cash flow stability. The company started out as a small utility in eastern Canada, but large takeovers in the United States have shifted the asset portfolio to the point where Fortis gets a majority of its revenue from U.S. operations.

The company reported Q2 2018 adjusted net earnings of $240 million, or $0.57 per share, compared to $0.61 per share in the same period last year. The dip is primarily due to unfavourable foreign exchange, a negative impact due to U.S. tax reform, and higher operating costs due to planned plant outages at the UNS energy subsidiary. It's important to note the weaker year-over-year quarterly performance, but the big picture remains attractive for Fortis.

Why?

Fortis has a five-year $15.1 billion capital plan underway that should boost the rate base by 5.4% per year to $33 billion by 2022. These investments should drive revenue and cash flow growth to support dividend hikes of 6% per year.

The current payout provides a yield of 4%.

**TD**

TD also has a large U.S. presence. In fact, the company operates more branches south of the border than it does in Canada, and the American business generates more than 30% of TD's profits.

TD gets the majority of its revenue from retail banking operations, which tend to be more stable than other segments. However, some investors might be concerned about the large Canadian residential mortgage portfolio in an era of high house prices and rising interest rates.

Increased mortgage costs can put pressure on some households, and as rates rise there will be people who could be forced to sell their properties. In the event that rates increase too quickly, the market might be hit with a flood of home listings, especially if the rate moves cause a downturn in the economy and an increase in unemployment.

This would be negative for the banks, so it is important to consider the possibility when evaluating TD for your portfolio. However, rising rates also tend to boost the margins the banks earn on the money they lend, and that can offset the impact higher rates have on mortgage growth.

TD is well aware of the risks and opportunities in the market and is still targeting medium-term earnings-per-share growth of at least 7%. This should support continued dividend increases. The bank has a track record of providing compound annual dividend growth of better than 10%. At the time of writing, the stock provides a yield of 3.5%.

**The bottom line**

Both stocks should continue to be solid long-term picks for a dividend-focused TFSA. I would probably split a new investment between the two companies.



Other buy-and-hold opportunities exist today to help round out your TFSA portfolio.

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**Date**
2025/07/05

**Date Created**
2018/07/31
**Author**
aswalker