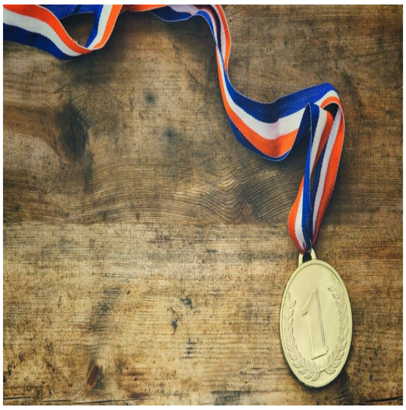

A Top Dividend Stock You Should Keep in Your TFSA for the Next 20 Years

Description

In Canada, the Tax-Free Saving Account (TFSA) is a great tool to grow your savings. If you're young and just starting to save for your retirement, you should take advantage of this avenue.

First, all the income you generate by investing through TFSA is tax free. Second, you can make use of this money anytime you need it without a tax penalty. Withdrawing funds from TFSA accounts also doesn't cut your limit. In fact, you can use that limit again when you have funds available.

For new TFSA investors, the biggest challenge is which assets they should pick to grow their investments. In my view, top dividend stocks offer one of the safest avenues to young savers.

In Canada, power and gas utilities top the list of reliable companies in which you can invest due to their business strength and growing dividends. Here is my top pick in this space.

Fortis

Power and gas utilities in North America operate in a regulated environment where governments fix the rates. So, unlike many consumer-facing businesses, they're not affected by the whims of economic cycles and extreme changes in consumer demand.

Utilities make sure they offer uninterrupted services, and consumers make sure to pay their bills on time. This predictability in cash flows helps them pay very stable dividends to investors.

That's one of the main strengths of St. John's, Newfoundland-based **Fortis** (TSX:FTS)(NYSE:FTS).

For your TFSA portfolio, however, it's very important to buy stocks with the potential to grow their payouts over time. Doing so will ensure that you are able to re-invest dividend to buy more shares and multiply your wealth quickly.

Between 2006 and 2017, Fortis's annual distribution increased from $0.67 to $1.7 a share, which is a CAGR of 9%. With growing dividends, you also need stability in your return. That means a company should be able to generate enough cash flows to not only maintain its dividends, but also grow the business.

Fortis's payout ratio of about 68% doesn't ring alarm bells. Fortis is forecast to produce about 6% growth in payouts each year through 2022, helped by massive investment the company is making to grow its cash flows. The company has increased its dividend payout for 44 consecutive years — a record very few companies can match.

Bottom line

Trading at about $42 per share, Fortis trades at a forward price-to-earnings multiple of about 15. That multiple is a good bargain to own this stock, which is known for its dividend stability and safety.

Fortis stock is unlikely to make a big jump as long as we have an environment of rising interest rates in North America. Higher rates diminish the investment appeal of utility-type stocks. But for TFSA investors, it is a good time to buy Fortis stock when it's trading at a discount.

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1. Dividend Stocks
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Date
2025/07/04
Date Created
2018/09/27
Author
hanwar