TFSA Investors: 2 Top Canadian Stocks to Own for 25 Years

Description

Canadian investors are using the Tax-Free Savings Account (TFSA) to set aside funds as part of their retirement planning program.

The TFSA is useful for younger investors who might prefer to sandbag their RRSP contribution room for future years when they will be in a higher tax bracket. The TFSA is also more flexible in that you can access the funds at any time without the concern of taxes being held back, as is the case when drawing money from an RRSP.

All dividends and capital gains generated in the TFSA are tax-free, so you can keep any upside the investments generate.

Let's take a look at two Canadian companies that might be interesting buy-and-hold picks today for a TFSA portfolio.

Nutrien (TSX:NTR)(NYSE:NTR)

Nutrien is wrapping up its first year in existence after being formed through the merger of Potash Corp. and Agrium. Combined, the companies form the planet's largest fertilizer supplier, providing wholesale potash, nitrogen, and phosphate to countries and farmers worldwide.

The early efficiency gains are already outpacing expectations. In the Q3 2018 report, Nutrien said it had achieved US$400 million in run-rate annual synergies, and expects to hit US$600 million by the end of 2019, which is double the initial guidance of US$300 million.

Commodity prices are also improving. Nutrien negotiated new potash supply contracts with India and China at higher prices in the latest agreements, signalling strong demand and improved market conditions. Spot prices are also moving higher in key markets.

Nutrien has upgraded its guidance for 2018 and the positive outlook bodes well for a solid dividend increase next year. The current payout provides a yield of 3%.

Population growth means more mouths to feed, and farmers around the world are required to generate better yield with less arable land. This should be positive for Nutrien's business for decades.

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

Royal Bank generates about $1 billion in profit per month. The company is one of the few financial institutions in the world that is deemed to be too big to fail. While anything is possible, as we saw during the Great Recession, the odds are likely slim that Royal Bank would get into the kind of trouble the American and European banks faced.

Royal Bank has a balanced revenue stream coming from a variety of segments and geographic markets, including a large private and commercial presence in the United States due to its US$5 billion purchase of City National three years ago.

The company raises the dividend on a regular basis and that trend should continue in step with targeted earnings-per-share growth of 7-10% per year. The current payout provides a yield of 4%.

The bottom line

Nutrien and Royal Bank are leaders in their respective industries with strong management teams and a positive growth outlook. If you have cash sitting on the sidelines, I would probably split a new TFSA investment between the two stocks.

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