TFSA Investors: 3 Top Dividend-Growth Stocks to Hold for Decades

Description

Dividend stocks are a great way to pad your TFSA balance and earn income tax-free. However, many dividend payments are stale and don't grow over time, meaning your payouts are effectively lower in future years once you factor in inflation. That's where the three dividend stocks below are very valuable, as their payouts have grown over the years and will likely continue to do so for the foreseeable future.

TD Bank (TSX:TD)(NYSE:TD) is a solid stock pick for many reasons, including its dividend. Although it hasn't had the best year with its stock price tumbling nearly 10% in the past 12 months, its dividend remains a very attractive option for investors looking to add a strong payout.

At just under 4%, it has a fairly high dividend yield for a stock that should also provide a great opportunity to earn some strong capital appreciation along the way. TD has provided investors with a strong, growing dividend over the years as well. Currently, shareholders receive $0.67 every quarter, and that is up more than 55% from five years ago, when those payments were just $0.43, for a compounded annual growth rate (CAGR) of 9.3%.

Any time you see a CAGR of more than 5%, that's a strong number, and TD's rate of increase is far in excess of that.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) may not be as safe a stock as TD is, but its payout is also a big higher at around 5% per year. With dividends in U.S. dollars, Canadian investors could see a lot of volatility in their quarterly payments, depending on how volatile exchange rates are. Since 2014, Algonquin has raised its dividend payments by more than 46% for a CAGR of 10%.

It's a higher rate of growth than TD's, and it might be an even better buy for dividend investors. There is, however, a bit more risk with this dividend, as Algonquin has generated just US$16 million in free cash flow over the past 12 months, which is well shy of the US$169 million it paid out in dividends during that time. That doesn't mean that a cut is around the corner, but that investors should keep a close eye on upcoming earnings results before deciding whether to invest.

Canadian Tire (TSX:CTC.A) may not currently pay as high a yield as the other two stocks on this list, but that could change. With a dividend of just 2.9%, the stock's payouts have been growing very rapidly. Just a few months ago, Canadian Tire announced it was hiking its dividends by an incredible 15%. In five years, its payouts have grown by more than 137% for an impressive CAGR of 19%.

The stock has done a tremendous job in growing its dividend; now it has reached the level where it can attract some serious attention from dividend investors. The one downside is that the company has seen a bit of volatility in its free cash flow, finishing in the red in three of the past five quarters.

Nonetheless, given its incredible rate of growth and that its cash flow is not that far behind dividend payments, a cut is likely not on management's radar right now.

CATEGORY

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TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CTC.A (Canadian Tire Corporation, Limited)
5. TSX:TD (The Toronto-Dominion Bank)

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Date
2025/08/20
Date Created
2019/01/07
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