TFSA Investors: This Stock Will Pay You Rising Dividends for Decades to Come

Description

Creating a steadily rising income stream from your TFSA is incredibly easy. You just need to load up on the right stocks and then patiently wait for their dividends to increase over time.

That doesn't mean the journey will be a smooth one, of course. The stock market has a way of taking normal economic slumps and turning them into a big deal. It takes a lot of intestinal fortitude not to sell when things are looking bleak.

One way I avoid selling at the wrong time is to take a long-term view of my investments. I know Canadians will need things like banks, telecoms, utilities, and real estate for decades to come, so I then I focus on dividends. As long as the periodic payment keeps rolling in, then I'm not tempted to sell.

Let's take a closer look at a stock that should make up the core of any retirement dividend growth portfolio, **Canadian Utilities Ltd.** (TSX:CU).

Safe and boring

While Canadian Utilities will likely never be one of those stocks that doubles or triples in a short period, it will likely deliver fairly predictable results with a little bit of growth mixed in.

The company is the owner of various electric utility infrastructure assets in Alberta, Yukon, and the North West Territories, as well as power plants spread across North America and Australia.

Canadian Utilities also owns natural gas utility assets, which collectively serve more than a million customers. Together, these businesses generate approximately $600 million per year in annual earnings.

The company plans to spend $1.2 billion each year through 2021 on its growth program — projectsthat should help boost the bottom line. And after the planned sale of some of the company's Canadian power plants go through, Canadian Utilities should have ample liquidity to make an acquisition or two. These both bode well for near-term growth.

Recent results have been solid. Second-quarter earnings were up approximately 20% on a year-over-year basis, buoyed by higher electric prices in Alberta, increased earnings from the company's hydrocarbon storage business, and rate increases in its natural gas utilities.

While I wouldn't expect earnings to increase by 20% every year, an average increase in the 5-8% range should continue for the foreseeable future.

Dividend growth

The dependable growth of the utility business should translate into a predictably expanding dividend.

Remember, Canadian Utilities already has one of Canada's longest dividend growth streaks. The company has hiked its dividend each year since 1972 — that's almost 50 consecutive years of dividend increases!

Couple that with the stock's healthy current yield and it's easy to see why Canadian Utilities is so popular with income investors. The current payout is a robust 4.4%.

Let's assume that dividend growth will be 6% annually for the next decade. If you buy Canadian Utilities shares today and the company grows the dividend by that amount, you'll end up with a yield on cost of 7.9% in 2029.

Or, to put it another way, an investment of 500 shares today would generate $845 in annual income right now. In a decade, those same 500 shares could produce $1,534 in annual income.

That's the power of stuffing your TFSA full of dividend growth stocks. Do that with 15 or 20 similar stocks and we're talking some serious money here.

The bottom line

Canadian Utilities is the perfect stock to stick in your TFSA for a couple of decades until it's time to retire.

The secret is to focus on the dividends and leave the stock alone. It may fall 20%, 30%, or even 50% if the market really takes a dive. But it's extremely unlikely the underlying business will suffer that much. Focus on that, not the underlying share price, and you'll take much of the guesswork out of investing.

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1. Dividend Stocks
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1. TSX:CU (Canadian Utilities Limited)

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Date
2025/08/26
Date Created
2019/09/10
Author
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