Retirement 101: A Top Stock to Stick in Your TFSA to Build Pension Wealth

Description

Canadians are turning to the attractive features of the Tax-Free Savings Account (TFSA) to help set aside some serious cash for their retirement.

Interest, dividends, and capital gains are not subject to tax inside the TFSA, meaning the full value of any earnings can be reinvested to take advantage of the power of compounding.

One efficient way to harness the snowball effect is to own top-quality dividend stocks that have strong track records of raising the payout every year.

Let's take a look at one top stock that might be an interesting pick today to get your TFSA retirement portfolio started.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) began as a small power company on the east coast but has grown to become one of the top 15 utilities in Canada and the United States will $50 billion in assets involved in power generation, transmission, and natural gas distribution.

The current $18.3 billion capital program is expected to boost the rate base from $28 billion in 2019 to $34.5 billion in 2022 and $38.4 billion in 2024. That's a compound annual growth rate of 7.2% over the next three years and 6.5% over the next five years.

Fortis just upgraded the capital plan by $1 billion, and investors should see ongoing additions, as the company finds tuck-in opportunities across the asset base.

Fortis also grows through acquisitions. The company spent more than US$15 billion on two large deals in the past five years in the United States. The US$4.5 billion purchase of Arizona-based UNS Energy and the US$11.3 billion takeover of Michigan-based ITC Holdings improved revenue diversification in the United States and provided good opportunities for organic growth.

New projects that are on the drawing board, but are not yet included in the capital program, include clean-energy initiatives in Arizona, the Lake Erie Connector electric transmission project in Ontario, and an expansion of liquefied natural gas infrastructure in British Columbia.

The board just declared a 6.1% increase in the dividend, which is in line with the company's target of boosting the payout by an average annual amount of 6% per year through 2024. Fortis has now raised the dividend in each of the past 46 years, so investors should be comfortable with the outlook and can position their investment accordingly.

The stock currently trades at just under $56 per share, providing a yield of 3.4%.

Interest rates are falling in the United States for the first time in a decade, and the Bank of Canada is widely expected to follow the same path in 2020.

A low-rate environment should be positive for Fortis. The cheaper borrowing costs make more cash available for dividends and the reduced rates on GICs should being more interest in the stock from yield-seeking investors who want safe payouts.

Long-term investors have done well with Fortis. A $10,000 investment in the stock just 20 years ago would be worth about $135,000 today with the dividends reinvested.

The bottom line

Fortis is just one example of a TSX Index stock that has helped investors build significant wealth over the past 20 years and should be a solid addition to a TFSA retirement portfolio.

Several other Canadian companies with strong track records of dividend growth have generated similar, or even better, returns.

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