TFSA Retirement: Should You Buy Royal Bank of Canada (TSX:RY) or Fortis (TSX:FTS) Stock Today?

Description

Canadian savers are using the TFSA to set aside cash for retirement.

One popular way to boost the size of your self-directed pension is to own top-quality dividend stocks and use the distributions to buy more shares. This kicks off a compounding process that has helped many investors turn their modest initial savings into big pots of money for the golden years.

The great thing about the TFSA is that all dividends and capital gains generated by the investments are tax-free.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Fortis** (TSX:FTS) (NYSE:FTS) to see if one deserves to be on your buy list today.

Royal Bank

Royal Bank has survived every major geopolitical and financial crisis that has occurred in the past 150 years.

Investors in the stock have also received a dividend every year since 1870, making Royal Bank one of the most reliable dividend stocks in the **TSX Index.**

The bank's long history of success lies in its ability to adapt to changes in the Canadian and global economies, as well as changes to the way people interact with the bank.

This remains true today, as Royal Bank is investing heavily in digital solutions to ensure it remains competitive with its peers, as well as non-bank challengers.

Despite the increased expenses to develop digital banking platforms and solutions, Royal Bank remains very profitable. Return on equity in fiscal Q3 2019 came in at a strong 16.7%.

The bank generated net income of $3.26 billion in the quarter, representing a gain of $154 million, or 5% over the same period last year.

Royal Bank recently raised the quarterly dividend for a second time in 2019. The increase of $0.03 per share to $1.05 translates into an annualized yield of 3.9%.

The stock is up from the August low near $98 to $107 per share. Trying to time an entry point on a dip might mean missing out on dividend payments and further upside, so investors with a buy-and-hold strategy should be comfortable getting in at the current price.

A $10,000 investment in Royal Bank 20 years ago would be worth about $145,000 today with the dividends reinvested.

Fortis

Fortis just increased its dividend by 6.1%, which shouldn't be a surprise given the company has now hiked the distribution for 46 straight years.

The utility company has grown significantly through acquisitions in the past few decades and the deals keep getting larger. In 2015 Fortis spent US$4.5 billion to buy Arizona-based UNS Energy.

The integration of UNS into the Fortis family went well and Fortis then spent US$11.3 billion in 2017 to buy Michigan-based ITC Holdings, a large electric transmission company.

UNS and ITC have performed as expected and Fortis sees organic growth opportunities that have emerged as a result of the purchases. For the moment, Fortis is focusing on its existing $18.3 billion capital program. The company says the investments will increase the rate base substantially over the next five years.

The benefit to shareholders is expected increases in revenue and cash flow that should support ongoing dividend hikes of roughly 6% through 2024.

That's the kind of steady guidance dividend investors like to see, especially in an economic environment that can potentially change on a single tweet from the U.S. president.

Fortis has enjoyed a decent rally this year due to the negative outlook for interest rates in the United States and Canada. Low rates reduce the cost of borrowing funds to invest in projects. They also make reliable dividend stocks more attractive in the eyes of yield seekers.

Fortis provides a yield of 3.4%.

Is one a better bet?

A month ago, Royal Bank would have been the first choice as it appeared oversold, but the rally has essentially wiped out the advantage. As such, I would probably split a new investment between the two stocks today.

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2. NYSE:RY (Royal Bank of Canada)
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