Retiree Investors: A Reliable Dividend Stock for a Self-Directed TFSA Pension Fund

Description

Canadian seniors are searching for ways to get better returns out of their savings without having to pay more taxes or put their OAS pension payments at risk.

One popular option is to use the Tax-Free Savings Account (TFSA) to hold dividend stocks. The cumulative contribution room in 2019 is as high as $63,500 per person. That means a retired couple would have up to $127,000 in TFSA space to hold high-quality dividend stocks that could generate a solid stream of tax-free income.

Let's take a look one top dividend stock that might be an interesting pick right now for your buy list.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a leading North American utility company with $52 billion in assets located in the United States, Canada, and the Caribbean. The businesses include power generation, natural gas distribution, and electric transmission operations that provide essential services to millions of residential and commercial customers in nine U.S. states, five Canadian provinces, and three Caribbean countries.

The majority of the revenue comes from regulated assets, meaning the company's income stream should be reliable.

Fortis grows by acquiring existing businesses, as it did through two major U.S. purchases in the past five years. Fortis spent US$4.5 billion to buy Arizona-based UNS Energy and then dropped another $11.3 billion for Michigan-based ITC Holdings.

The integration of the two businesses went well and served to balance out the asset mix, both by geographic exposure and business segment.

Fortis is currently focused on its five-year $18.3 billion capital program that is expected to boost the rate base from $28 billion in 2019 to $38.4 billion in 2024.

The resulting revenue and cash flow growth should support average annual dividend increases of 6% over that time frame. Fortis raised the payout by 6% in 2019 and has bumped up the distribution for 46 straight years.

At the time of writing, the payout provides a yield of 3.5%.

The stock has enjoyed a nice rally this year, rising more than 20%. The support has largely come as a result of reduced expectations for interest rate hikes in Canada, and the sharp reversal by the United States Federal Reserve.

Coming into 2019, most analysts expected the U.S. central bank to continue its rate-hike program, with as many as three increases priced into the market. As we now know, the Fed has cut rates twice and more downside is likely on the way in 2020.

This will put added pressure on the Bank of Canada to start reducing rates as well.

Why are interest rates important?

Lower interest rates make fixed-income alternatives, such as GICs, less competitive with stocks. As rates fall, yield seekers are willing to take on some risk to get better returns and shift toward reliable dividend stocks. This is one reason why Fortis has picked up a nice tailwind this year.

The other benefit is reduced borrowing costs. Fortis uses debt to help finance its growth projects. The lower the cost of funding, the more money that is potentially available to be paid out to shareholders.

The medium-term trend suggest interest rates will continue to fall or at least remain at their current levels. This should be positive for Fortis and support the increase the stock has enjoyed in 2019.

Should you buy?

Fortis pays a reliable dividend that should continue to grow at a steady pace for years. If you are searching for a top-quality dividend stock to put in your TFSA pension fund, Fortis deserves to be on your radar.

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