TFSA Investors: 2 Dividend Growth Stocks to Build Your Portfolio Around

Description

One way to make the most of your Tax-Free Savings Account (TFSA) is to hold dividend growth stocks in it. As dividend income is not taxable within a TFSA, it becomes a great vehicle to stockpile dividend income in. And stocks that increase their payouts over the years become ideal investments to hold in it since your recurring income rises over time and you'll be able to simply watch all that recurring income roll into your portfolio, tax-free.

Here are two stocks that have been increasing their payouts in recent years that could be great options to put in your TFSA today:

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is not just a great dividend growth stock over the long haul, but the Big Five bank already provides investors with a great yield today. Currently, the bank pays investors a quarterly dividend of $1.46 per share.

With the stock trading around $94 per share, that means it's yielding more than 6.2% annually. That's a terrific payout that on a $25,000 investment would generate $1,550 in tax-free income every year.

But that's just the start, as that dividend is likely to grow. Three years ago, CIBC was paying a quarterly dividend of $1.30, which has grown 12.3% since then. That averages out to a compounded annual growth rate (CAGR) of 3.9%. It's a stable rate of growth that makes it possible that the bank could sustain it over the years.

If you were to hang on to CIBC for the long haul, your dividend payments would double after about 18 years if the bank kept increasing its payouts at that rate. It's already a top dividend stock to own today and years from now it may get even better.

However, much will ultimately depend on the COVID-19 pandemic or perhaps a suspension of them if the economy struggles. But over the long term, this is a stock that will generally increase its dividend payments over the years.

Canadian Utilities

Canadian Utilities Limited (TSX:CU) is a dividend growth beast. The stock has a reputation for having the longest streak of dividend increases on the **TSX**. On January 9, it raised its payouts for the 48th year in a row. The increase was a modest 3% bump up, which is still impressive given how many years the streak is at today.

You can bet this is a stock that isn't going to stop increasing its payouts unless there's something catastrophic that happens that leaves the company no choice. No one wants to reset the counter back to zero, and the utility business is generally fairly stable in any case, so odds are you won't have to worry about Canadian Utilities halting its dividend hikes anytime soon.

Three years ago, the stock was paying investors a quarterly dividend of $0.3575. Canadian Utilities has hiked the payments by 21.8% over that time, and its CAGR is 6.8% — well above CIBC's rate.

Currently, the stock pays $0.4354 every quarter and with the stock trading at around $35, that means its dividend yield is approximately 5%.

While not as high as CIBC's yield, it's still a solid payout. On a $25,000 investment, that could generate $1,250 every year. And if the company continues increasing dividends on average by 6.8% per year, then Canadian Utilities' dividend would double by year 11. But that's by no means a guarantee, as the stock's most recent increase was much more modest.

Either of these two stocks are great income-generating investments that would look great in any TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:CU (Canadian Utilities Limited)

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Date
2025/08/14
Date Created
2020/08/01
Author
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