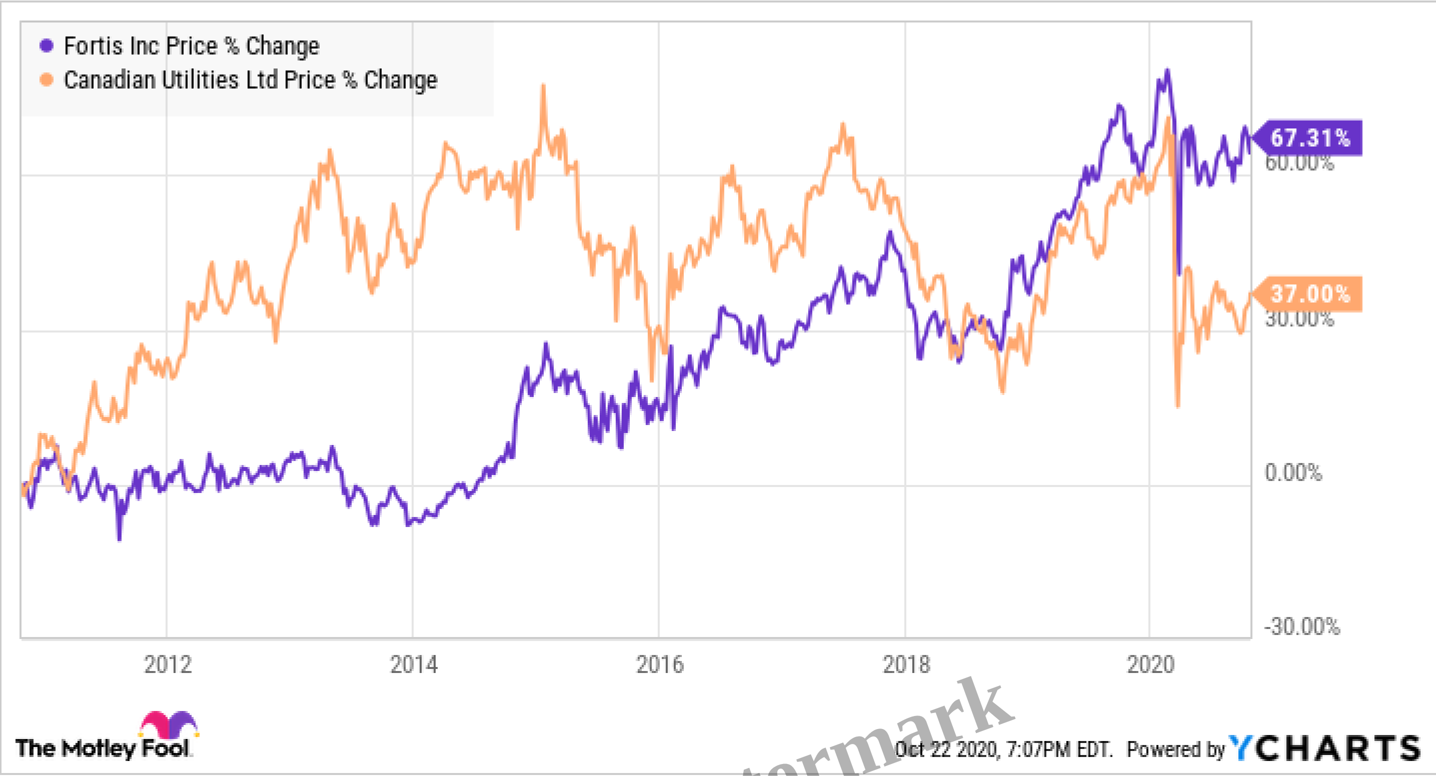
Better Than Fortis (TSX:FTS): This Utility Stock Pays Over 5%

Description

Are you looking for a top dividend stock to add to your Tax-Free Savings Account (TFSA)? A stock like **Fortis** (TSX:FTS)(NYSE:FTS) is a great place to start. The company's known throughout the country, its business is stable and profitable, and it continues to grow. It's not the most exciting investment to own, but you can count on it for recurring income and some safe returns overall. Over the past decade, Fortis stock has risen 67%, averaging a compounded annual growth rate (CAGR) of 5.3% per year. That's not a bad return, especially if you add that on top of the utility company's current dividend yield of 3.7%. Combined, you could be earning around 9% every year.

The one drawback of Fortis stock is that its yield isn't terribly high. While you don't necessarily need to be looking for double-digit yields, you can still aim for a better payout than what you'll get with Fortis, and you can even do so without taking on much risk. A good example is **Canadian Utilities** (TSX:CU). The company pays a yield of 5.1% today, and it has the longest-running streak of increasing dividend payments on the TSX at 48 years in a row. And prior to 2020, the stock's returns were, at worst, neck and neck with Fortis:



Like Fortis, Canadian Utilities has posted consistent profits in each of the past 10 years.

However, since these are both dividend-growth stocks, let's also compare how they compare in terms of dividend increases.

Comparing the dividend hikes

Today, Fortis pays a quarterly dividend of $0.505, and that's increased 34.7% from five years ago when it was paying $0.375, averaging a CAGR of 6.1%. Canadian Utilities pays $0.4354 every quarter, and that's increased 47.6% over a five-year period, for a CAGR of 8.1%. Canadian Utilities has been increasing its dividend by a higher rate over the past five years, and if that trend continues, the gap between the dividend income you can earn from owning these two stocks will only get bigger.

Here's a look at how much more annual dividend income you'd earn investing in Canadian Utilities than you would with Fortis on a $10,000 investment:

	Today's Yield	CAGR	Dividend (Today)	Dividend (In 5 Years)	Dividend (In 10 Years)
FTS	3.70%	6.13%	$370.23	$498.58	$671.42
CU	5.12%	8.10%	$512.08	$755.80	$1,115.51
	Difference		**$141.85**	**$257.22**	**$444.09**

Bottom line

The longer that you hang on to the investment, the larger the gap becomes. However, this also assumes that both of these stocks will continue raising their dividends at the same rate, which is never a guarantee.

Both Fortis and Canadian Utilities are some great dividend stocks you can hold in your TFSA. But if you want to stretch that recurring income, you'll want to pay attention to dividend-growth rates. While they won't necessarily predict the future, they can be good indicators of which stock is the better buy when evaluating recurring income. In this situation, the higher-yielding stock was also increasing its payouts at a higher rate, but that isn't usually the case.

Dividend stocks are great options for TFSA investors since, inside those accounts, the dividend income that's earned is not taxable. Whether you're a retiree who's looking for some regular cash flow or just saving for retirement, dividend stocks can serve many different purposes.

CATEGORY

1. Dividend Stocks
2. Investing

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