



2 Top TSX Dividend Stocks to Build Wealth for Decades

Description

Canadian TFSA and [RRSP](#) investors are searching for top TSX dividend stocks to add to their self-directed retirement portfolios.

Power of compounding

A popular strategy for building long-term retirement wealth involves buying top dividend stocks and using the distributions to acquire new shares. The snowball effect starts out slowly, but over time it can turn small initial investments into significant funds for the future. This is particularly true when the share price increases, along with the dividend payouts.

Let's take a look at two Canadian stocks that exhibit great track records of dividend growth and have made some long-term investors rich.

Canadian National Railway

CN ([TSX:CNR](#))([NYSE:CNI](#)) is a unique player in the North American rail industry. It is the only railway that owns tracks that run from the Pacific to Atlantic coasts in Canada as well as down through the heart of the United States to the Gulf Coast. The ability to offer services to ports on three coasts is a strong competitive advantage.

CN made headlines this year when it tried to buy **Kansas City Southern**, a smaller American railway that gets half of its revenue from operations in Mexico. The bid for US\$30 billion plus debt was initially accepted as superior to a US\$25 billion deal Kansas City Southern already had in place with **CP Rail**. In the end, however, regulatory concerns forced the Kansas City Southern board to break the agreement with CN and go back to CP at an increased price of US\$27 billion plus debt.

CN's management team is disappointed, but the company walks away with US\$700 million in netbreak fees and investors should benefit from the resumption of share buybacks and the probability of abig dividend increase in 2022.

CN is a very profitable business without making an expensive acquisition. The company generates strong free cash flow and is putting a new program in place that sets capital investments at a fixed rate of 17% of revenue through 2024. This should result in additional cash available for distributions.

CN plays a key role in the functioning of the U.S. and Canadian economies and should continue to see revenue grow.

Long-term investors have done well with this stock. A \$10,000 investment in CN when it went public 25 years ago would be worth \$500,000 today with the dividends reinvested.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a utility company with \$56 billion in assets located in Canada, the United States, and the Caribbean.

Nearly all of the revenue comes from regulated businesses. This is important for dividend investors, as the cash flow needed to pay distributions tends to be reliable and predictable. Growth in revenue and profits comes through strategic acquisitions and internal projects.

Fortis isn't shy when it decides to do deals, and it has a proven track record of successfully integrating new businesses into the portfolio. The company is also good at finding capital projects that grow the existing rate base. Fortis is currently working through a \$19.6 billion capital program that should support average annual dividend growth of 6% through 2025.

The board raised the dividend in each of the past 47 years, making Fortis one of the top dividend-growth stocks in the TSX Index. A \$10,000 investment in Fortis 25 years ago would be worth about \$185,000 today with the dividends reinvested.

The bottom line on building retirement wealth

CN and Fortis might not deliver the same results in the next 25 years, but the strategy of buying top TSX dividend stocks and using the distributions to acquire news shares is a proven one for building wealth. It takes patience and discipline, but investors with a buy-and-hold focus can create a substantial savings fund for their retirement years.

CATEGORY

1. Investing

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2. NYSE:FTS (Fortis Inc.)

3. TSX:CNR (Canadian National Railway Company)
4. TSX:FTS (Fortis Inc.)

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