2 Defensive Dividend Stocks for TFSA and RRSP Investors

Description

Market volatility could be more pronounced in the coming weeks and months, as investors adjust to rising interest rates, soaring bond yields, and ongoing geopolitical uncertainty. As a result, it makes sense to consider adding defensive dividend stocks to a self-directed TFSA or RRSP pension fund.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company with $58 billion in assets located in Canada, the United States, and the Caribbean. The businesses include power generation, electricity transmission, and natural gas distribution operations that are 99% regulated. This means revenue and cash flow tend to be predictable and reliable. That's important for investors who are seeking low-risk investments for their TFSA and RRSP portfolios.

Fortis raised its dividend in each of the past 48 years. This is a strong track record, and the growth is expected to continue. Fortis has a $20 billion capital program on the go that will boost the rate base from $31 billion to above $40 billion by the end of 2026. Additional projects are under consideration that could expand the growth.

Revenue and cash flow will move higher as the new assets go into service, providing more opportunity for distribution growth. In fact, Fortis intends to increase the dividend by an average of 6% per year through at least 2025.

Investors who buy the stock at the current share price can pick up a 3.4% yield.

Emera

Emera (TSX:EMA) is another utility based in eastern Canada. The $34 billion in utility assets are also located in Canada, the United States, and the Caribbean.

The regulated electric and natural gas utilities provide stable revenue and cash flow. Homes and businesses need to turn on the lights, heat water, run air conditioners, and operate heating systems whether the economy is on a roll or in a slump.

Emera has a three-year capital program that is expected to be $8.4-$9.4 billion. The company anticipates rate base growth will be 7-8% through 2024. This should support targeted dividend growth of 4-5% per year over that timeframe.

The compound annual dividend growth rate is 5% over the past 22 years. Total shareholder returns have averaged 11.8% in the past two decades. Investors who buy the stock at the time of writing can pick up a 4.1% dividend yield.

It wouldn’t be a surprise to see Emera become a takeover target as the utility industry consolidates. Investors shouldn’t buy the shares on the hopes of getting a big gain on an acquisition, but the potential is there for some capital appreciation along with the steady dividend growth.

The bottom line on top defensive stocks

Fortis and Emera are good examples of companies that generate reliable revenue and cash flow from essential services. The companies have capital programs in place to support revenue growth and higher dividends in the coming years. They operate businesses that have built-in resistance to both economic downturns and global instability in financial markets.

If you have some cash to put to work in a self-directed TFSA or RRSP pension fund, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
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