RRSP Investments: 2 Top TSX Stocks to Buy for Total Returns

Description

Canadian savers are searching for ways to build quality RRSP portfolios that maximize total returns. One popular RRSP investing strategy involves buying top TSX dividend stocks and using the distributions to acquire new shares.

Power of compounding

Using dividends to buy additional stock harnesses the power of compounding. Many companies give investors a discount on the new shares when purchased through the dividend-reinvestment plan (DRIP). The savings can be up to 5%, so the long-term impact could be significant when the dividends rise at a steady pace and the stock price appreciates in value.

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 firm gets 99% of its revenue from regulated assets, so the cash flow stream tends to be very predictable and reliable. As a result, the board has the confidence to give investors solid distribution-growth guidance.

Fortis expands its revenue through acquisitions and internal development projects. The company hasn't done a large deal for several years, so a new takeover wouldn't be a surprise in the medium term, as the North American utility sector consolidates.

Fortis is currently busy working on a $20 billion capital program that will increase the rate base by more than $10 billion through 2026. Additional projects under consideration could boost the the size of the program and extend the revenue-growth outlook. For the moment, Fortis expects cash flow to increase enough to support average annual dividend growth of at least 6% through 2025.

Fortis has raised the dividend in each of the past 48 years. The current payout provides a yield of3.4%. Investors who use the DRIP to buy new shares get a 2% discount.

Long term RRSP investors have done well with Fortis. A $10,000 investment in the stock 25 years ago would be worth more than $190,000 today with the dividends reinvested.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) owns renewable power assets that include solar, wind, and hydroelectric facilities. The company also owns regulated water, electricity, and natural gas utility businesses.

Algonquin Power is in the process of buying **Kentucky Power** in a US$2.85 billion deal that will significantly shift the percentage of the company's revenue and cash flow to the regulated segment. This should provide better visibility on cash flow in the coming years. As a result, the market will likely view the stock more as a regulated utility play than a renewable energy bet. That should be positive for investors.

Algonquin Power recently increased the dividend by 7%. This follows a decade of steady annual distribution increases of 10%. The share price appears undervalued right now near $18.40 per share on the TSX and investors can pick up a solid 5.1% dividend yield. Algonquin Power's DRIP provides a 5% discount on the purchase of new shares.

A $10,000 investment in Algonquin Power 10 years ago would be worth about $45,000 today with the dividends reinvested.

The bottom line on top stocks for RRSP total returns

Fortis and Algonquin Power pay attractive and growing dividends and have delivered solid total returns for buy-and-hold investors. If you have some cash to put to work in a self-directed RRSP, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:FTS (Fortis Inc.)

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