# Use These 3 Stocks to Create Huge Passive Income

## Description

Passive income is perhaps the Holy Grail of investing. I don't know anybody who would say no to an extra $500 … $1,000 … or even $5,000 per month.

Probably the easiest way to start your passive income journey is to start buying dividend-paying stocks. After years of compounding and additional investments, the trickle of passive income will soon become a stream, then a river. Finally, seemingly when you least suspect it, the river turns into a tsunami, as cash comes gushing in from all sides.

That's where we'd all like to be.

There's no better time to start building your passive-income empire than today. Here are three high-yield stocks to get you started.

**Northview Apartment REIT**



I'm a value investor, so there's one simple reason why I like **Northview Apartment REIT** (TSX:NVU.UN). It's cheaper than its competitors–a lot cheaper.

Northview has become Canada's third-largest owner of apartment buildings with 24,300 units spread out over dozens of different markets. It still has significant exposure to northern Canada–with a third of income coming from the region–but it has diversified into a true nationwide player.

Northview is on pace to deliver $2.16 per share in funds from operations in 2016, while shares currently trade hands at $21.09. That gives the company a price-to-earnings ratio of just 9.8, which is very cheap. Its two larger competitors trade at closer to 20 times earnings.

This valuation difference also ensures investors get a very generous dividend. Shares currently yield 7.7%, paying out 13.58 cents per month each. Yet the dividend is quite sustainable with a payout ratio of just 75% of funds from operations. That payout ratio is about the same as competitors, yet they only pay dividends of 4-5%.

**CIBC**

**Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) persistently trades at a cheaper valuation than its peers.

Case in point: its price-to-earnings ratio. While competitors all trade between 11 and 13 times trailing earnings, CIBC shares are sitting below 10 times earnings. On a forward basis, CIBC shares are even cheaper.

Why the persistent discount? I think it's because CIBC is a very Canadian-centric bank. Almost all of its operations are in Canada, except some wealth management offices in the United States. That's changing thanks to its $4.9 billion deal to buy PrivateBancorp. Many analysts think CIBC overpaid for its U.S. prize, but I doubt we'll be saying that in a few years.

In the meantime, investors can enjoy a dividend higher than any of its peers; it currently comes in at 4.8%. CIBC has also demonstrated excellent dividend growth over the last five years as well, hiking its quarterly payout from $0.90 per share to $1.21.

**Altagas**

Like many other utilities, natural gas and power producer **Altagas Ltd.** (TSX:ALA) is taking advantage of low interest rates to expand its already impressive operations.

Altagas has three different divisions. Its largest–despite its name–is actually producing power; it has 1,688 MW of power-generation capacity from four different fuel types. This accounts for about 40% of earnings. Next is natural gas distribution, which operates in five different jurisdictions and has 565,000 customers. Finally, it operates pipelines for natural gas producers. These two divisions drive approximately 35% and 25% of earnings, respectively.

Altagas has a capital-expansion plan totaling between $2.6 and $3 billion; projects will really start to come online in 2018. This will increase EBITDA approximately 50% from 2015 levels.

The company has been a dividend-growth machine since 2010, increasing the annual payout from $1.32 per share to $2.10–a growth rate of 8% annually. With a payout ratio of 57% of adjusted funds from operations forecast for 2016, investors can count on the 6.3% yield. In fact, the company should easily be able to increase the dividend, especially after some of the expansion projects start producing income.



**The bottom line**

A portfolio that has equal positions in Altagas, CIBC, and Northview Apartment REIT would yield 6.3%, while providing historical dividend-growth rates that have exceeded inflation. That's the kind of passive-income machine I can really get behind.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

**TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:CM (Canadian Imperial Bank of Commerce)

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**Date**
2025/07/07
**Date Created**
2016/10/20
**Author**
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