Is This Canada’s Safest Passive Investment?

Description

This week, I set myself a challenge – find the safest passive investment currently listed on the **Toronto Stock Exchange.**

For me, no asset can be truly passive if you’re worried about it all the time. Also, I question how passive an investment can be if its prospects change within a decade and you have to lower your exposure to the sector due to unforeseen circumstances.

At the same time, the asset needs to provide an income high enough to live off of. It doesn’t matter how safe and secure the stock is: if you can’t meet the 4% rule because the management is being too conservative with the company’s cash flow.

With all that in mind, I looked through several exchange-traded funds, bonds, and stocks to find what I believe is the ideal candidate for the country’s “safest passive investment.”

Manulife

I understand that calling a Canadian financial firm the safest passive income company is a controversial statement, but **Manulife Financial** (TSX:MFC)(NYSE:MFC) seems to tick all the boxes for a robust long-term wealth creator. Just hear me out.

Manulife’s biggest strength is its business model, which relies on a stable recurring income stream from life insurance policies. It’s an industry that’s boring and essential enough to be insulated from the wider economy.

However, Manulife has bolstered this insulation from risk further by diversifying the business overseas. At the moment, a massive chunk of the company’s insurance premium revenue (72%) is generated in Asia. The rest is based in North America.

The company has also diversified its business model to include wealth management, however this segment is still a fraction of overall sales and is more prone to capital market risks than the core life insurance business.

Perhaps the most solid reason for its inclusion on my list is the strength of the company's dividend. The stock currently offers a 4.5% dividend yield, which should be more than enough to live off of.

Dividends have been steadily increasing for over seven years, making it a Canadian Dividend Aristocrat . Both the stock price and quarterly dividend amount have doubled since 2012, creating tremendous wealth for passive investors.

The company maintains a conservative dividend payout ratio (34%). Meanwhile, business is growing steadily across its regions and segments and the return on equity is estimated to be 12.5% this year.

Best of all, the stock currently trades at a depressed valuation. The current stock price ($22) is 4% below the book value per share. Investors haven't yet recovered from their shock to discover the company could go out of business if it lost a critical court battle against a hedge fund last year.

However, the company won the case and has managed to eradicate its biggest risk factor this year. That's what puts it on the top of my list of safest passive income investment opportunities.

Bottom line

Manulife's global footprint, steady business model, conservative payout, high yield, and attractive valuation make it one of the safest passive income opportunities in the country.

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