Dividend Investors: 2 Passive-Income Stocks to Buy Ahead of a Recession

Description

Although it may seem like a lot of dividends may be at risk in a recession, that's not always the case.

Logically, it makes sense that as companies are making less money, they will have less to payout, but cutting the dividend is not an easy decision to make and is one most companies try their best to avoid, unless it will really impact the future of the company.

Dividends are also a lot less volatile than changes in stock prices, both to the upside and downside.

This is because stocks can swing wildly, as they are determined by supply and demand for the shares, whereas changes in the dividend are long thought-out decisions that are forecasted and budgeted by management teams.

This is why buying dividend-paying stocks for the long term is one of the best ways to insulate your portfolio ahead of tough economic times.

Of course, you will need to find companies whose earnings will be more stable than the average and that have a solid management team and operations to be able to weather the storm and protect your hard-earned money.

Two of the top Canadian stocks for investors seeking passive income are **Emera** (TSX:EMA) and **A&W Revenue Royalties Income Fund** (TSX:AW.UN).

Emera

Emera is a utility company with assets in Canada, the U.S. and the Caribbean, although its operations in Florida and Atlantic Canada make up about 87% of its rate base.

Emera is a great company for passive-income seekers, because much of its dividend is funded by long-term contracts that are diversified geographically.

This provides the dividend with stability and ensures the company will have adequate cash flows to at least pay the current dividend, if not raise it.

More than 95% of Emera's assets are regulated, which gives its cash flow a ton of stability and allows the company to lock in earnings growth, through investments in its rate base.

Its consistent margins and sustainable debt load make it one of the top passive-income stocks to own long term.

Emera's dividend, which currently yields roughly 4.2%, has a payout ratio of just 72%, and has been raised 67% since 2014.

A&W

A&W owns the trademarks to the over 930 restaurants in Canada. The deal gives the fund a 3% top-line royalty on sales from each of its restaurants.

There are a number of royalty companies to buy in Canada, but A&W is by far the best. When looking at top-line royalty companies, the most important thing is sales growth, and that's where A&W has been leading the pack.

Its same-store sales growth (SSSG) in 2018 was 9.8%, and in the most recent quarter it saw SSSG of 10.2%. This incredible growth has boosted A&W to be the second-biggest burger chain in Canada, trailing only **McDonald's**.

Its continuous product innovation and new offerings drive new customers as well as retaining existing customers through its strong brand loyalty.

A&W will likely continue its growth as it sees positive impact from its marketing campaigns that have been very effective.

The dividend yields roughly 4.85% today and has also grown significantly since 2014, up roughly 36%.

Although the yield isn't as high as some of its peers, it reflects A&W's strong growth and stability, and with the growth it will see over the next few years, the dividend should continue to increase and pay out an attractive amount.

Bottom line

Finding dividend-paying stocks that will be able to at least keep their dividends flat through a recession is one of the best ways to protect your portfolio.

It's important to diversify through different industries; buy companies that are cheap and offer value such as A&W and Emera.

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