$6,000 in This Stock Could Deliver $399 in Passive Income

Description

Dividend yields have climbed after the recent market crash. However, investors seeking passive income from stocks need to tread lightly. Plenty of companies will face credit issues over the next few months. To conserve cash, some might be compelled to cut their dividends.

It seems likely that we're already in a recession. The ongoing pandemic has had devastating effects on our economy.

Nevertheless, some passive-income stocks should sail through this crisis unperturbed. Certain industries seem immune to the ongoing shutdown and economic hurdles ahead. The renewable energy sector fits that bill. The clean energy sector could be a multi-trillion-dollar opportunity.

Calgary-based **TransAlta Renewables** (TSX:RNW) is a clear favourite. The firm's robust balance sheet and attractive dividend make it an excellent passive-income opportunity.

Here's why TransAlta Renewable should be on your passive-income watch list for 2020.

High passive-income yield

TransAlta has lost over a fifth of its value since late February. That has pushed its dividend yield to 6.65%. That's twice the dividend yield of the **TSX 60 Index**. In other words, a $6,000 investment in TransAlta could yield $399 in passive income over the course of 2020.

The dividend is also well supported.

Robust cash flow

While there are plenty of stocks that offer higher dividend yields, I believe TransAlta is one of the safest. Renewable energy is usually supplied under long-term contracts with corporate buyers. That makes cash flow more reliable.

According to the company's latest filings, 100% of natural gas supplies are contracted. The company operates seven natural gas facilities, collectively producing 949 MW of power. Half of this supply is based in Canada and the other half in Australia. Collectively, the contracts have an average weighted life of seven years.

Contracts are also fixed for 100% of the company's wind and solar power capacity. The average life of these contracts is 11 years. In other words, TransAlta has fixed and predictable income for many years ahead. That makes its dividend much more sustainable.

However, the company's dividend-payout ratio is over 100%. That's usually a red flag for dividend stocks. I believe cash flows will increase, as new power plants are acquired or completed in 2020.

Balance sheet strength

A strong balance sheet makes TransAlta Renewables's passive income much more reliable. Unlike most utility companies, TransAlta hasn't borrowed too much capital. Long-term debt is still less than half (41.5%) the value of underlying equity.

Underlying tangible assets are worth nearly 60% of the company's market value. These hard assets will retain their value better than traditional real estate during this economic downturn. That puts a floor on TransAlta's stock and dividends.

Foolish takeaway

During this crisis, investors need to focus on safe and predictable cash flows. Long-term corporate contracts make these cash flows more predictable. This makes its income more reliable than other companies.

The 6.6% dividend yield seems attractive. Investors can generate $399 in annual passive income with just $6,000 invested upfront. When capacity surges, the dividend could be boosted further.

Investors should keep this dividend stock on their passive-income radars for 2020.

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