Canadians: 1 Simple Way to Make $700 in Passive Income a Year

Description

It's always prudent to have multiple income streams. The COVID-19 pandemic has shown us how volatile the global economy can be. Within a few months, unemployment rates have spiked to unprecedented levels. So, where do you invest to generate recurring income?

Investing in real estate requires a ton of capital and the risks are high. The recent pullback in equity markets provides investors a good opportunity to buy quality stocks at cheap valuations and attractive dividend yields.

Right now, energy stocks such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) are trading significantly below to their 52-week highs. Low energy prices coupled with the coronavirus-led sell-off has driven Pembina stock to its current price of $35.73. While the stock is trading 34% below its 52-week high, it has gained a massive 134% since bottoming out in March.

As oil prices cratered, Pembina slashed its investment program for 2020. It has reduced capital spending between 40% and 50% from its earlier guidance. The pipeline giant will delay certain expenditures and this might impact growth rates in 2021 and 2022. However, this decline has been priced into the stock.

Pembina pays a monthly dividend

Pembina is a Canada-based energy infrastructure company. It offers a wide range of midstream and marketing services to traditional oil and energy companies. It generates a majority of earnings from fee-based contracts, making the firm somewhat immune to commodity prices.

This results in steady and a recurring stream of cash flows that allows Pembina to pay monthly dividends to shareholders. It has grown dividends at an annual rate of 4% in the last decade. Given the recent weakness in stock price, Pembina's forward yield stands at a tasty 7.1%. This means a $10,000 investment in Pembina stock will generate annual dividends of $710.

Investing in Pembina is not risk-free. The company may be impacted by lower volumes due to tepid oil demand. However, 70% of company revenue is generated via take-or-pay contracts. This means Pembina customers have to pay for services even if they do not use them.

During the last earnings call, company CFO Scott Burrows stated, “the underlying business remains highly contracted, with between 90% and 95% of 2020 adjusted EBITDA supported by long-term, fee-based contracts, including approximately 68% to 72% coming from cost-of-service or take-or-pay arrangements. This is coupled with a payout ratio and fee-based cash flows that more than cover its dividend.”

In the first quarter, Pembina’s adjusted EBITDA rose 7% year-over-year to $830 million. Its earnings of $314 million were in line with the prior-year period.

Pembina’s Marketing & New Ventures division is the only segment that has direct commodity exposure. To offset this volatility the company has hedged 50% of frac spread exposure in 2020 and 35% in 2021. Another reason why a bet on Pembina makes sense is that 80% of its credit exposure is with investment-grade counterparties. Its non-investment-grade counterparty exposure is well diversified across industries.

The Foolish takeaway

Investing in Pembina is just an example. You do not want to have a large exposure to a single industry especially if your investment capital is limited to $10,000. You can identify similar companies that have safe dividends and a strong balance sheet to diversify your portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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