Passive Income: 3 Stocks to Buy With $3,000

Description

Generating a portfolio of passive income is not difficult. That is, it wasn't until COVID-19 hit, and companies started cutting dividends at a record pace.

As of writing, there are more than 80 TSX-listed companies that have either cut or suspended dividends . For many, forward passive income is trending downwards. Investors are now left wondering if their rest of their income streams are safe.

The best way is to identify companies with a sustainable dividend. A quick screen for companies that yield more than 2%, have a history of raising the dividend, and whose payout ratios as a percentage of earnings and cash flow are below 50% is a good start. Here are three investment options where investors can deploy $3,000 to generate stable passive income.

A top passive-income stock

Topping the list in terms of yield is **Manulife Financial** (TSX:MFC)(NYSE:MFC). As of writing, Manulife currently yields 6.31% — the first time it has been this high in over a decade. Investors are a little gun-shy when it comes to insurers, as they were ill-prepared for the 2008 Financial Crisis. In Manulife's case, it even cut the dividend. This is not what passive-income investors want to see.

However, investors are underestimating the current strength of the industry. Learning from their previous shortcomings, insurers are better capitalized. Manulife has a capital ratio of 155% with more than $31 billion of excess capital over OFSI's supervisory target of 100%.

Likewise, Manulife's leverage ratio of 23% is below its targeted range of 25% and below the 30% it stood two years ago. The dividend currently accounts for only 44.40% of earnings and 10.15% of operating cash flow.

As a Canadian Dividend Aristocrat, it has a six-year dividend-growth streak in which it has averaged approximately 12% dividend growth. For those looking to generate high levels of passive income, Manulife is worth another look.

A little-known industrial

Another company that makes for an attractive passive-income play is **Finning International** (TSX:FTT). This Canadian Dividend Aristocrat has an 18-year dividend-growth streak and currently yields an attractive 4.4% yield.

On the most recent call, Greg Palaschuk — executive vice president and chief financial officer — had this to say about the dividend:

> "While our expanded liquidity capacity provides flexibility for a wide range of both stress and opportunity scenarios, our base case and primary objective is to generate strong free cash flow and prioritize capital allocation towards debt repayment and meeting our dividend commitment."

The good news for passive-income investors is, Finning generates strong cash flow. The dividend accounts for only 38.87% of free cash flow and 26.53% of operating cash flow.

A safe bank

Fun fact: few of Canada's big banks pass the aforementioned screening criteria to generate safe passive income. As the banks booked high provision for credit losses last quarter, earnings cratered. As a result, the dividend now accounts for more than 50% of trailing 12-month earnings in most cases.

One notable industry standout is **Canadian Western Bank** (TSX:CWB). As a regional player, it may get overlooked especially in light of **Laurentian Bank's** recent dividend cut. However, Canadian Western is the most conservative bank in Canada.

At 28 years, Canadian Western owns the longest dividend-growth steak in the industry. During the last oil bear market, it nearly cut the dividend given its high exposure to the oil patch. It has since adopted a more conservative payout ratio of 30%. This gives it more flexibility to maintain the dividend if earnings drop as a result of macro pressures.

As of writing, it has a payout ratio of 35.37% of earnings, which is by far the lowest in the industry. It is more than 10 percentage points lower than **National Bank's** 46.26% ratio, which is the lowest of the big banks. Canada's banks are the backbone of passive income in this country. Although not as high as its counterparts, Canadian Western's 4.74% yield is among the safest.

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