



## Passive Income: Turn \$10,000 Into a \$800 a Year Income Stream

### Description

The current market reality is more deceptive than at any time since the tech bubble of the late 1990s. Markets, general market indices, seem very expensive. After all, even the **TSX** is starting to approach all-time high territory after crossing 16000 once again. Looking at these numbers, stocks can start to seem pretty unreasonable.

In reality, though, indices in Canada are beginning to resemble American markets in more ways than one. Not only are they shooting much higher than the economic conditions seem to warrant, but Canadian indices are also being powered by a few tech stocks.

Luckily for investors focused on value and income, there are still plenty of stocks to buy that are reasonably priced for the economic conditions. In this article, I will give you two stocks that will generate about \$800 in passive income a year on a \$10,000 investment.

### Pipelines

Oil stocks have been terrible performers for years, which is ironically positive for investors with the cash to invest. Stocks like **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) and **Keyera Corp.** ([TSX:KEY](#)) are very cheap at this level. These companies are great value propositions if you are looking to pay reasonable prices for strong cash flows.

Oil stocks are in the doldrums, but both Keyera and Pembina are both still quite profitable. They have exposure to different commodities, with Keyera primarily focused on transporting natural gas and Pembina operating oil transportation pipelines.

These stocks are very cheap on a trailing price to earnings (P/E) basis and on a price to book valuation. Pembina currently trades at just 12 times trailing earnings and Keyera at nine times earnings. On a price to book basis, Pembina is trading at 1.3 times book value and Keyera at 1.5 times book. While this valuation is not [the screaming cheap value](#) we saw in March, it is still quite reasonable.

## Dividends

The reason you buy these stocks is to generate strong, long-term cash flows from these dividend growers. At the time of this writing, Pembina pays a dividend yield of about 7.5% and Keyera yields about 9%. This gives investors an average yield of about 8%, or about \$800 a year on a \$10000 investment. These [dividends are paid](#) out monthly, generating predictable income that can supplement your income needs.

Both of these companies are dividend growers with a long history of increases. Keyera last raised its dividend by 7% in August of 2019. Pembina also raised its dividend in January 2020 by 5%. Investors will have to watch to see if dividends continue to go higher this year given the depressed oil prices.

## Cautionary notes

These are great investments that I am buying at these levels. However, there are issues that investors need to keep in mind before buying. First and foremost, these stocks are capital intensive and debt-heavy businesses. Leverage does make them susceptible to price shocks.

Most of their earnings come in the form of long-term contracts, so they do have some cash flow visibility. However, these contracts still depend on producers actually shipping oil and gas through the pipelines.

There is also the risk of more economies moving toward renewable energy. If there is less demand or even no demand, oil companies will not need pipelines. At the moment, I don't believe this is an issue but investors should consider this possibility before making a decision.

## The Foolish takeaway

Putting \$10000 into Keyera and Pembina will pay off over the coming years. They are cheap, have great yields, and still may have excellent capital gains. If you want to generate solid passive income from two excellent companies, these are two that you can own today.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:KEY (Keyera Corp.)
3. TSX:PPL (Pembina Pipeline Corporation)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
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