CERB Payment Delay: Get Monthly Income on Time With These 2 Dividend Stocks!

Description

In early September, many Canadians experienced a delay in their Canada Emergency Response Benefit (CERB) payments that were extended until the end of this month.

Consider diversifying your income stream, so you don't need to rely on one source. If you've got some savings down your belt, you can turn it immediately into a cash cow. Here's how to get paid on time every month with these dividend stocks.

A resilient healthcare REIT for monthly income

NorthWest Healthcare Properties REIT (TSX:NWH.UN) is a resilient investment to earn passive income amid the pandemic. All its properties remain 100% open during this time.

NorthWest Healthcare Properties generates rental income from a defensive portfolio that's diversified across more than 2,000 tenants in seven countries. Its Q2 rent collection totaled more than 97%.

The REIT's 189 healthcare properties include hospital, outpatient, and medical office buildings. And it originates more than 80% of its revenues directly or indirectly from public healthcare funding.

Moreover, 75% of its rents are indexed to inflation. This helps protect its high dividend yield of 7% along with a normalized payout ratio of 87%, which is reasonable for a stable REIT.

A strong occupancy of 97% and a weighted average lease expiry of close to 15 years also stand to support the longevity of its monthly income generation.

The stock is reasonably priced trading at $11.38 per unit — a 9% discount from its normalized net asset value (NAV) of $12.53 per unit, which is not too far off from its 12-month price target of $12.21.

Investing $10,000 would generate annual passive income of about $700.

A turnaround REIT for monthly income and price appreciation

H&R REIT's (TSX:HR.UN) retail business has been greatly affected by the pandemic, and accordingly, the stock has fallen more than 50% year to date.

The diversified REIT responded by cutting its cash distribution by half in May. In the current stressful environment, the new cash distribution is very well protected with a payout ratio of below 60% versus the sector's average payout of about 70%.

H&R REIT's rent diversification is as follows: 44% in office, 34% in retail, 16% in residential, and 6% in industrial. Its rent collection for office, residential, and industrial was fine for August at 99%, 90%, and 97%, respectively, leading to a total portfolio rent collection of 87% for the month.

Other than its retail business, investors are also concerned about the long-term impacts the pandemic could have on its office portfolio, although no performance deterioration is evident at this time.

Primarily, its retail exposure has pressured the stock to trade at a 53% discount from its Q2 NAV of $21.80, at the recent quotation of $10.22 per unit.

The stock is also undervalued according to analysts' average 12-month price target of $14.64, which represents a discount of 30% or near-term upside potential of 43% on top of getting a 6.75% dividend yield.

Investing $10,000 would generate annual passive income of about $675.

Tax treatment of cash distributions from REITs

REITs pay out distributions that are like dividends but are taxed differently. In non-registered accounts, the return of capital portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

For example, in 2019, 59% of NorthWest Healthcare Properties distributions were return of capital and 41% were other income. So, if you received the full cash distribution of $0.80 per unit for the year in a non-registered account, you would have reduced your cost basis $0.4720 per unit and paid $0.3280 per unit at your marginal tax rate.

If you hold the shares in registered accounts like a TFSA, RRSP, RESP, or RDSP, you can ignore the above.

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TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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kayng