How to Increase Your Passive Income Now

Description

Too many people saw a cut in their income this year due to lost work hours or lost jobs from the pandemic disruptions. These folks are forced to spend their savings. To increase the longevity of your savings, invest in dividend stocks now.

I'll discuss a couple of top dividend stocks you can consider for passive income immediately.

Here are the criteria:

- They must have a minimum dividend yield of 5.44%, which is double that of what the Canadian stock market offers.
- The dividend must be deemed safe.
- The dividend stock must have acceptable upside potential.

Get passive income of 5.9% from Bank of Nova Scotia stock

It's a good year to buy bank stocks for income. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) offers an elevated yield of 5.9%. The bank reported its fiscal Q3 earnings on August 25.

In the first three fiscal quarters, BNS's revenue increased by 3% year over year. Its adjusted earnings per share fell 21%. The earnings cut was primarily due to higher provision for credit losses that more than doubled to $4.95 billion.

For the nine-month period, BNS stock's payout ratio was just under 70%. Scotiabank has the ability to increase its dividend, but regulators likely won't allow the big Canadian banks to increase their dividends this year to be on the safe side. Therefore, buyers today can expect to earn a yield of 5.9% and that BNS will resume dividend growth when the macro environment is stabilized.

In a few years, the bank can trade at the $80 level again for upside of about 36% from the recent quotation of $60.93.

Generate annual income off 5.7% from H&R REIT

H&R REIT (TSX:HR.UN) is a diversified REIT with office, retail, industrial, and residential real estate properties in North America. It just reported its Q3 results on Thursday.

So far through the pandemic, its enclosed mall retail properties were the most impacted with economic shutdowns that led to an average same-store sales (SSS) of only 31% in Q2. As soon as the economy reopened, these malls' average SSS improved markedly to 86% in Q3.

The REIT has more than $1 billion of liquidity available. Its adjusted funds from operations payout ratio was very conservative at 49% in Q3. This implies a safe dividend, which is paid out as monthly cash distributions of $0.0575 per unit.

The payout ratio is very low, because management prudently cut the cash distribution in May to retain more cash for the business. As the economy heads towards normalcy, there's a good chance it can restore some of the cut cash distribution.

The REIT also trades at a significant discount of 45% to its end-of-Q3 net asset value (NAV) of $22.11 per unit. Notably, its NAV per unit declined by 14% year over year. This is partly why the stock has fallen so much this year. However, the path to normalcy should restore at least some of the lost NAV down the road, which will, in turn, lift the stock higher.

Over the next three to five years, the stock can trade at the $20 level for upside potential of close to 65% from the recent quotation of $12.13. Meanwhile, you can collect a yield of at least 5.7%.

Thanks to its diversified portfolio, H&R REIT collected 90% rents in Q2, followed by the rental collection improving to 95% for October.

The Foolish takeaway

Don't wait to increase your passive income. There are lots of undervalued big dividend stocks on the market. I was only able to cover two ideas in this article, but the potential is clear — by investing $10,000 in each stock, you can earn an extra $1,160 of passive income a year.

Importantly, you can expect wealth creation from long-term price appreciation in these investments. You can either sell the shares when they reach their fair valuation or hold on for more passive income.

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2. TSX:BNS (Bank Of Nova Scotia)
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