Need Passive Income Now? Earn $200 a Month With This Stock!

Description

Investing in passive-income stocks can be a great way to both preserve and create wealth. High-grade bonds have traditionally served as Canadian's best and safest mechanism for passive income. However, with [interest rates at generational lows](), bonds issued today hardly earn any return. This is especially true when considering many bonds are likely losing money after inflation, taxes, and commissions. As of today, a 10-year Government of Canada bond will only yield investors 1.08%!

Bonds hardly boost your passive income

The point is, for Canadians to meet their passive-income goals, they may have to branch out to riskier assets such as TSX-listed stocks. Unlike bonds, public companies are under no obligation to pay dividends to their common shareholders. To preserve goodwill in the market, companies will pay a set dividend rate as long as they can afford to continue to do so. However, it is one risk passive-income investors need to seriously consider. The best way to mitigate this risk is to buy income stocks with good balance sheets, strong management, and stable income streams.

Today, I am going to recommend one solid passive-income stock. Put $30,000 into this stock, and you could earn an average of $205 a month in passive income. This stock operates in a challenging environment. Yet, in exchange, you get an elevated dividend yield and some potential upside. While dividend yields over 8% are often a concern, this TSX stock shows ample capacity to keep paying its dividend. When the world recovers from COVID-19, this company could see a nice rebound, as cyclicals return to favour in the market.

This is a great company in a bad sector

The passive-income stock is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). It operates a network of pipelines and midstream/value-add facilities across Western Canada and the United States. These assets are absolutely essential for Canadian energy producers to get their energy products to market.

The stock is trading down 35% year to date and is trading with a historically high 8.18% dividend.

Despite energy-related stocks facing a challenging year, Pembina has demonstrated resilient results. In its recent third quarter, net revenues and adjusted EBITDA actually increasing year over year by 13% and 8%, respectively.

Only about 5-10% of Pembina's adjusted EBITDA has any exposure to commodity pricing. These areas did affect adjusted cash flow growth for the quarter (down 8% from 2019). Yet over 90% of the business is contracted with a majority (about 70%) of investment-grade/secured counter-parties. All this means that Pembina's stream of cash flows are actually more stable than most investors realize.

Through the pandemic, management has prudently managed capital expenditures and spending. In fact, management found 50% more cost savings than originally anticipated. Pembina has a manageable debt load (a net debt-to-EBITDA ratio of 3.8 times) and a strong interest coverage ratio (EBITDA-to-senior-debt interest coverage of 7.7 times). Considering its strong financial situation, Pembina can pay out passive income and afford to reduce debt and still buy back stock.

Passive income and some future upside

Currently, this passive-income stock has an adjusted funds from operation (AFFO) yield of 17%. 60% of its AFFO is currently used to pay out its dividend. The remainder will now go to improve the balance sheet and reduce its share count.

Combine all this, and Pembina will be even better equipped to produce strong returns when the energy demand recovers after the pandemic. If you need passive income quickly, this stock is a great one to hold now and enjoy strong pandemic-recovery returns!

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robbybrown