How to Build a Passive Income with Dividend Stocks

Description

If you're looking to build a passive income stream with a portfolio of dividend stocks, you've come to the right place. I'll show you the general idea of how to come up with potential dividend stock ideas for passive income today.

Dividend stock ideas

Here are some dividend stocks that come from various industries to help you build a diversified portfolio today. I believe they have safe payout ratios and decently stable earnings or cash flow to protect their current dividends.

If you buy an equal-weight portfolio (the same dollar amount) in **Royal Bank of Canada**, **TELUS**, **H&R REIT**, **Manulife**, **Lockheed Martin**, and **Enbridge**, you'll get an average yield of about 4.8% for your dividend portfolio. If you invest $10,000 in each stock, that'd be $2,880 of passive income a year.

Let's dig a little deeper as to why I chose these stocks for a potential dividend portfolio that's focused on current income.

These dividend stocks provide juicy income

This portfolio of stocks can boost your passive income stream immediately. They provide sufficiently juicy income today. How can I tell?

The Canadian and U.S. stock market provide yields of about 2.5% and 1.4%, respectively. An equal-weight portfolio in RBC, TELUS, H&R REIT, Manulife, Lockheed, and Enbridge yields 4.8%, which roughly doubles and triples the benchmark yields!

Dividend safety

Since this is a passive income dividend stock portfolio, you want to put in as little effort as possible after you buy the stocks. Ideally, you'd want to hold the stocks forever. As it stands now, the list of dividend stocks provides safe dividends.

Each company has stable earnings or cash flow, or a big margin of safety to protect its dividend based on its payout ratio.

RBC has a leading position in the products and services it offers in Canada. It maintains a normal payout ratio of about 50% and generates stable earnings that grow in the long run.

TELUS is one of the Big 3 telecoms in Canada. It generates persistent cash flows. Its free cash flow payout ratio in the trailing 12 months was about 65%.

H&R REIT is one of the cheapest dividend stocks in the group. It cut its cash distribution by half in May 2020 due to the uncertainties surrounding the pandemic.

As a result, its payout ratio is estimated to be about 50% going forward. The diversified real estate investment trust is discounted based on its meaningful exposure to retail properties that contribute about 34% of its rental income.

Because of its discounted valuation, the stock provides an elevated dividend yield of 5.2%. It last reported that in October, its rent collection was 99% for its office properties, 88% for retail, 96% for residential, and 100% for industrial, resulting in an overall rent collection of 95%.

Manulife and Lockheed generate stable earnings with estimated safe payout ratios of about 36% and 40%, respectively.

Enbridge needs little introduction. It's a Canadian Dividend Aristocrat with 25 consecutive years of dividend increases. Its predictable cash flow and sustainable payout ratio protect its 7.3% yield.

The Foolish takeaway

When building a passive income stream, look for dividend stocks with juicy dividend yields that are supported by stable earnings or cash flow and sustainable payout ratios. Ideally, the earnings or cash flow should be growing for the long haul, leading to dividend increases in the future.

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