



Need Passive Income? This 5.9% Dividend Stock Could Be Perfect

Description

The ideal passive income opportunity has three key ingredients: predictable cash flows, robust economic prospects, and a higher dividend yield. Most high-yield dividend stocks rarely have the other two elements, which is why it's risky to hold them over the long term. However, Canada's energy sector is fertile ground for such opportunities.

With that in mind, here's a passive income opportunity that could deliver a reliable 5.9% return.

TC Energy

TC Energy (TSE:TRP)([NYSE:TRP](#)) is one of the largest energy companies in the country. The stock has come under immense pressure amid a slide in oil prices from multi-year highs of \$76 a barrel. While the stock is up by about 15% year to date, it is currently trading 10% lower than its 52-week high of \$65.42.

The recent steep pullback is despite the fact that second-quarter results were solid, with net income landing at \$982 million. TC Energy continues to profit from a diversified portfolio of critical energy infrastructure.

The pipeline business is far less volatile than the rest of the energy sector, which is why this [dividend stock is more reliable](#).

A diversified infrastructure portfolio has allowed the company to shrug off the downturn in the energy industry and offer consistent payout through dividends. The company has raised its dividend offering for 21 years in a row — a longer streak than most other energy companies. TC is now just four dividend hikes away from securing the title of Dividend Aristocrat.

High dividend yield

The company makes most of its money from the midstream energy segment, which is mainly involved in the transportation of oil and natural gas. Its refineries along the Gulf Coast elicit strong demand, allowing the company to generate significant free cash flow to sustain its dividend yield of about 5.5%.

the highest compared to other energy stocks.

Additionally, TC energy boasts of a project pipeline of about \$21 billion expected to generate significant free cash flow in the future to allow the company to grow its dividend to about 7%.

On the valuation front, it is not that cheap when compared to other oil and gas giants. The stock trades with a price-to-earnings ratio of 29 and a price-to-book multiple of 1.6. In my opinion, these ratios imply a fair value for TC energy stock. Few other dividend stocks have such predictable cash flows. Couple that with the expectations of higher oil prices in the near term and you have a potential winner.

Bottom line

TC Energy's pipeline infrastructure business is a lot more stable than the rest of the energy sector. This business model gives the management team visibility on future revenues, which is why they can afford to reward shareholders. The stock currently offers a 5.9% dividend yield. That makes it one of the most lucrative energy stocks on the market.

This steady dividend stock could serve as the cornerstone of your passive income portfolio.

CATEGORY

1. Dividend Stocks
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