Passive-Income Investors: Don't Sleep on These 2 Bargains on the TSX

Description

Passive-income investors have been dealt a tough hand, with fixed-income debt securities yielding next to nothing in a rock-bottom rate environment. Undoubtedly, the case for owning bonds is the worst it's ever been, especially for young investors, many of whom have little to no desire to own them as a part of a diversified portfolio.

Indeed, low rates could persist for many years. But does that mean investors should go all-in on dividend stocks and high-yield REITs? Probably not. Cash will always have a spot in a portfolio, even with opportunity costs as high as they are with inflation north of the 4% mark.

Sure, cash is a risk-free asset in that it won't reduce in dollar amount. Still, it can reduce purchasing power as inflation continues to remain untamed. That's why investors need to find the right balance of risk and reward with investments beyond the "risk-free" class.

Indeed, REITs are less choppy than common stocks. They're required to return the lion's share of income to shareholders in the form of a distribution. That leaves little in the way of growth. But for passive-income investors, it's a deal worth making, especially for those who stand to benefit from a lower degree of correlation to their equity portfolios.

For those willing to take on more risk, there are beaten-down stocks within the energy sector that could provide the best of both worlds in the form of capital appreciation and a large, growing dividend. The latter category is an investment is recommended for younger investors who can better ride out the ups and downs en route to both higher share prices and higher dividends. The longer one holds them, the less risky they get. The reverse can be said of long-duration bonds, especially in this environment.

Passive-income investors: A lot of options on the TSX

Without further ado, consider 4.3% yielder **H&R REIT** (TSX:HR.UN) and 3% yielder **Suncor Energy** (TSX:SU)(NYSE:SU). Both firms brought their payouts to the chopping block last year, and their stocks have been punished accordingly. As COVID pressures abate, I think both firms can provide investors with above-average appreciation and dividend hikes over the next three to five years. So, although their dividends (or distributions in the case of H&R) seem modest, they are in great shape to re-grow after cuts made in 2020.

H&R REIT

H&R REIT provides investors with a good mix of different types of real estate. Undoubtedly, shares have been punished severely because it's overweight in office and retail real estate, two REIT sub-industries that found themselves in the middle of the crosshairs of the COVID crisis. As conditions normalize, H&R looks positioned to climb back towards its pre-pandemic highs. Still, there is concern that office space may never return to that of 2019 levels. The way I see it, any modest recovery in office could be enough to move the needle higher on shares, which remain down over 31% from their 2019 highs.

Suncor Energy

Oil prices have been surging of late, with WTI nearing the US$80 mark. Still, Suncor stock is stuck in a rut, while its peers in Canada's oil patch have all but recovered from last year's woes. Suncor went from the king of the oil sands to a dud, and all it took was a year. Still off 38% from 2020 highs, I view Suncor as one of the best catch-up trades in the entire energy sector. Suncor is still a magnificent company with resilient operations. The strength in oil, I believe, will eventually propel SU stock back to its highs. In the meantime, investors can collect the 3%-yielding dividend, which could be in for more growth than the producers that didn't cut their payouts last year.

CATEGORY

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2. TSX:HR.UN (H&R Real Estate Investment Trust)
3. TSX:SU (Suncor Energy Inc.)

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