Passive Income: Earn Money in Your Sleep With This Dividend King

Description

Earning money in your sleep is the definition of financial freedom. Unfortunately, most stocks fail to live up to this benchmark. They either offer low dividends or are so risky that you can't sleep at night. Passive income is difficult to generate these days. But not impossible.

Some rare stocks strike the perfect balance between low-risk and high shareholder rewards. Here's one such pick.

Passive income pick

SmartCentres Real Estate Investment Trust (TSX:SRU.UN) is my top pick for passive income. That's because the company offers a high dividend yield generated from a business model that is utterly reliable.

SmartCentres is a commercial landlord. This means it's a professional player in Canada's favourite sport – investing in real estate. However, what sets SmartCentres apart from its countless peers is its portfolio. The company holds a mix of unique properties that cement its cash flows regardless of economic conditions.

For one, the majority of its chopping centres are anchored by **Walmart** – the world's largest grocer. Walmart represents 73% of SmartCentres' tenant base and 25% of its net income. That alone should put investors at ease.

Walmart's business model is nearly immune to the economy. People rely on it for groceries regardless of economic conditions. This was apparent during the pandemic and recession of 2020.

With Walmart as an anchor, SmartCentres can expect steady and expanding cash flows for the foreseeable future.

Dividend king

SmartCentres REIT currently offers a 5.8% dividend yield. That's pretty impressive, but it gets better when you consider the future. Put another way, the current yield is based on suppressed rental income and activity during the pandemic. As the crisis is resolved, rents and business activity should climb, leading to further dividend growth.

The company is expecting a surge in commercial rent activity in the years ahead. Meanwhile, the team is expanding the portfolio to mixed-use properties like residences, hotels, and retail and storage facilities. Altogether, SmartCentres should see steady appreciation in its book value and net income in the years ahead.

That should allow the team to raise dividends consistently.

Valuation

Another reason SmartCentres is the perfect passive income opportunity is its valuation. Undervalued stocks are less prone to stock market crashes and economic crises. That puts another layer of safety on this stock.

SmartCentres is currently trading at a forward price-to-earnings ratio of 16. Funds from operations (FFO) are expected to be roughly $400 million by the end of this year. That means the stock is trading at a price-to-FFO ratio of 13.75 – remarkably low for this sector.

In short, SmartCentres is an undervalued gem.

Bottom line

Safe and reliable passive income is rare. Investors can't generate income in their sleep if the risk of losing money is keeping them up at night. That's why it's better to focus on stocks like SmartCentres that offer hard assets, reliable cash flows and steady growth over the long-term.

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