2 Cheap Dividend Stocks to Buy and Hold for 10 Years for Passive Income

Description

Quality dividend stocks can be great additions to any diversified investment portfolios. When it comes to getting passive income, investors will probably lean towards high-yield dividend stocks like **TC Energy** (TSX:TRP)(NYSE:TRP). However, don't disregard low-yield dividend stocks that are hiking their dividends faster. I'll use **Enghouse Systems** (TSX:ENGH) to explain why.

A cheap dividend stock for passive income now

TC Energy is a fine pick right now for a yield of nearly 6%! If you want passive income now, it should be at the top of your buy list to research. The energy infrastructure company has operated pipelines, energy storage facilities, and power-generating plants in Canada, the United States, and Mexico for more than seven decades! It has paid dividends for close to 60 years. This year's dividend increase marked its 21 consecutive years of dividend growth.

Investing $5,000 in the big dividend stock now will generate close to $300 in annual income. Investors can expect the dividend to continue increasing into the future to roughly keep pace with inflation. Management is anticipating dividend growth of 3-5% annually in the medium term.

Across 20 analysts, TC Energy is undervalued by approximately 13%. So, the dividend stock could appreciate about 15% over the next 12 months while paying a high yield. Combined, solid total returns of about 21% are possible over the near term.

However, there's no need to trade in and out of the stock to generate nice returns. It's big dividend and stable cash flow generation makes TC Energy stock an excellent candidate for passive income. Its portfolio consists primarily of natural gas infrastructure and power and storage assets, complemented by oil and liquids pipelines. These assets are set to remain relevant in a world of decarbonization.

How can low-yield dividend stocks be buys for passiveincome?!

Some passive-income investors ignore low-yield dividend stocks. However, it's the wrong move if you're planning to invest for decades. For instance, although Enghouse Systems investors started with a puny yield of about 1.4% in 2008, fast forward a little more than a decade to now, the yield on cost of the investment would be over 18%! Imagine getting a return of more than 18% every year on your original investment. So, if your original investment in Enghouse Systems were $5,000 in 2008, you would generate more than $914 annually by now.

It is possible to enjoy the consistent returns from healthy dividend growth. In particular, the tech stock has increased its dividend by about 20% per year in the period. That's a very high dividend-growth rate that was only possible because the company maintains a sustainable payout ratio and reinvests its retained earnings skillfully.

Enghouse System's five-year return on equity (ROE) of approximately 19.3% is relatively high. *Investopedia* explains the ROE as "a gauge of a corporation's profitability and how efficient it is in generating profits," calculated by net income divided by shareholders' equity. Investors could use the long-term average of **S&P 500's** 14% as a benchmark.

The company has maintained a high ROE (close to 14% or higher) in the last decade thanks to its disciplined acquisitions strategy. Management will simply walk away from an acquisition if it's too expensive. In any case, four analysts find the tech stock to be undervalued by about 27% with near-term upside potential of 37%. Enghouse starts you off with a yield of close to 1.3% right now.

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