High Yield: These Passive-Income Stocks Look Undervalued

Description

High yield combined with low risk is the winning formula for passive-income investors. Unfortunately, most stocks offer only one of the two. If the dividend is too high, the stock is probably exposed to some risk. If the risk is too low, the fixed-income component is mediocre.

However, there are some exceptions. Some companies offer essential services in industries with relentless demand. If these stocks are overlooked or undervalued, they're potentially less risky for investors. Here are a few high-yield dividend stocks that are undervalued enough to offer downside protection.

Senior living

Extendicare (TSX:EXE) strikes the perfect balance between payout and low risk. The Markham-based company operates 120 senior living and healthcare assistance facilities across the country. It's a safe and boring business with predictable revenues. The company's been around since the 1960s, which means the team has plenty of experience managing costs and operation risks in this line of work.

Senior care is in a secular growth phase. Canada's greying population creates plenty of opportunity for this sector. In 2016, people over the age of 65 already outnumbered children. By 2030, one in every four Canadians will be over that age. The nation's population is greying, and demand for senior care is only going to increase in the decades ahead.

This pool of endless demand means companies like Extendicare can deploy capital with confidence. Its network already includes 120 facilities across Canada. That makes it one of the largest senior care providers in the country.

Investors seemed to have overlooked this opportunity. The stock trades at just 21 times annual earnings per share. It also offers a robust 6.6% dividend yield that's been expanding for years. This high-yield passive-income opportunity should certainly be on your radar.

Oil stock

In Canada, the demand for energy is nearly on par with real estate and senior living. The oil and gas sector has been the bedrock of our economy for decades, and this isn't likely to change anytime soon. In fact, the world faces an acute energy shortage in the years ahead, as the transition to renewables makes the grid more delicate.

Experts predict that energy stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) should see higher prices and robust revenue in the years ahead. That hasn't been priced into the stocks yet. Enbridge stock is still trading at a price-to-earnings ratio of 17.3. It offers a dividend yield of roughly 7%. At that rate, the stock could pay back your upfront investment within 14 years *through dividends alone*!

What makes Enbridge even more appealing is the fact that its dividends are expanding. This year, the company increased its payout by 3%. If natural gas and oil prices remain elevated next year, investors can expect another boost.

Enbridge is a high-yield dividend stock trading for less than fair value that should be on your watch list for 2022.

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