



These 2 Passive-Income Stocks Have Hidden Dividends

Description

For investors seeking passive income, the dividend yield is an important metric. However, the dividend yield could be wiped out by capital losses if the stock price is volatile or declines. This is why long-term investors should focus on low-risk, undervalued dividend stocks with a floor on their stock price.

While it's difficult to spot these safe-haven stocks, one clear signal is a robust buyback program. If the company's management team is bullish enough to purchase its own stock that's a signal that the stock is undervalued and relatively safe.

Buybacks have the same impact as dividends for long-term shareholders. By reducing the number of shares outstanding, the company can put a floor on the stock price and perhaps even push it higher. That's why I call buyback programs "hidden dividends."

Here are the top two passive-income stocks with buyback programs in 2022.

Royal Bank of Canada

2021 was a phenomenal year for Canadian banks. Not only did they benefit from a recording economy, but the real estate market soared like never before. Mortgage lending is still feverishly high at the time of writing, with no end in sight. To add a cherry on top, regulators allowed banks to hike dividends, which led to a floor of dividend growth across the sector.

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) raised its dividend substantially. The dividend this month will be \$1.20 per share, 11% higher than the previous quarter. However, the company also implemented a hidden dividend. The company's normal course issuer bid to purchase 45 million shares was approved in December.

At today's market price, that buyback program is worth \$6.6 billion! For context, that's roughly 3% of the bank's market capitalization. Add this 3% buyback to the 3.3% dividend yield, and you can see how Royal Bank shareholders are in for a windfall in 2022.

Magna International

Auto parts giant **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) is another hidden dividend star. Magna stock offers a mediocre 2% dividend yield. But that yield hides the full story. The company's payout ratio is just 28.5%, which means it has unbelievable room to boost dividends.

Meanwhile, the fundamentals keep improving. Record-high demand for car parts is clearly reflected in the company's bottom line. Earnings per share surged from US\$0.06 (C\$0.08) in the first nine months of 2020 to US\$3.46 (CA\$4.4) in the same period of 2021. Instead of using this bump in earnings to offer a special dividend, the company is buying back shares.

Magna stock trades at 13 times earnings at the moment. Management believes it is so undervalued that they've implemented a buyback program for 29,948,000 Magna Common Shares. That's roughly 10% of the company's public float.

If you're looking for passive income, Magna stock could be a [hidden gem](#) that delivers substantial cash flows in the future.

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:MG (Magna International Inc.)
4. TSX:RY (Royal Bank of Canada)

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Author

vraisinghani

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