3 Passive-Income Stocks That Are Greatly Undervalued

Description

For passive-income stocks, income potential and sustainability usually supersede valuation. It's smart to invest in a high-yield aristocrat like **Enbridge**, even when it's quite overvalued, instead of a modest-yielding, undervalued company that might be on the verge of cutting its dividend.

However, the right undervalued, passive-income stock that offers a good yield and a decent shot at sustainability might be an even smarter investment, as the potential for capital appreciation is likely to be higher.

An office REIT

While most commercial REITs have a slice of office properties in their portfolio, there are few pure-play office REITs you can invest in. One of them is **Slate Office REIT** (TSX:SOT.UN). The REIT is currently trading at a price-to-earnings ratio of 8.6 and price-to-book ratio of just 0.6 times. The REIT is offering a mouthwatering yield of 7.9%.

With this yield, you can start a passive income of about $130 per month with less than one-fourth of a fully stocked TFSA. It has a diversified portfolio of office properties, some of which are in the U.S., but the highest concentration is in Toronto. The dividends seem sustainable enough, thanks to the payout ratio of 73.8%.

A healthcare property REIT

The niche real estate asset class healthcare can be a great source of financial stability due to the evergreen nature of businesses attached to these properties. However, since direct exposure is almost impossible for most retail investors, investing in a generous REIT like **NorthWest Health Properties REIT** (TSX:NWH.UN) is a good way to gain exposure to this asset class — especially at its current undervaluation, which is evident by its price-to-earnings ratio of just 6.6.

However, it's just undervalued — not discounted. It's already trading quite near its all-time high value.

The REIT has an international portfolio, with an extensive presence in Canada, Germany, and Australia, and a few properties each in Brazil and Netherlands. It is currently offering a juicy 5.9% yield.

A mortgage company

MCAN Mortgage (TSX:MKP) offers a combination of valuation, yield, and payout ratio that's quite hard to beat. It's currently the most undervalued stock on this list that's offering a powerful 7.8% yield, just a little shy of the top spot. And at about 50%, the payout ratio is dead centre as well. It's also a federally regulated mortgage lender, which endorses its stability.

The company finances both residential and commercial mortgages. The residential mortgages are funded via its wholly owned subsidiary. It has a well-balanced and stable portfolio, which offers financial strength, making its dividends more reliable. At its current yield, the company offers $104 a month passive income with $16,000 invested.

Foolish takeaway

It's quite easy to find undervalued dividend stocks, but as you start making your criteria more restrictive about dividend sustainability and yield, the list starts to shrink. But even that small pool might offer powerful enough options that can help you create a reliable, long-term, passive-income stream.

CATEGORY

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2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:RPR.UN (Ravelin Properties REIT)

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