2 Passive-Income Stocks for a Lifetime of Income

Description

Pensions like the Old Age Security (OAS) and Canada Pension Plan (CPP) are for life and serve as the retirement foundation of Canadians. Even if you're eligible to receive both, the combined benefits might not be enough to cover all your financial needs to retirement.

Retirement experts' suggestion to soon-to-be retirees is to not rely on the pensions alone post-retirement. If you dream of a comfortable retirement, financial maintenance or routine starts as early as now. Saving cash is good for immediate liquidity, although inflation could eat up its value over time.

If you have extra cash you won't need anytime soon, purchase income-producing assets like dividend stocks. While some future retirees think that living off dividends is a myth, dividend investing is the less-complicated way to building retirement wealth.

The Canada Pension Plan Investment Board (CCPIB), fund manager of CPP contributions, emphatically states that the pension is not a retirement plan but a foundation. Canadians are responsible for augmenting the pensions to maintain their pre-retirement lifestyles.

Beat inflation

Historically, dividend growth has outpaced inflation. Assuming you invest $50,000 in a stock that pays a 3% dividend today, the money will compound to $104,688.90 in 25 years. By time you retire in 2047, and if the yield remains constant, you'll have an annual passive income of $3,140.67. Moreover, the principal is intact.

On the TSX, many established companies pay more or double the 3% dividend. **Canadian Utilities** (TSX:CU) has earned Dividend King status by increasing its dividend for 50 consecutive years. **Transcontinental** (TSX:TCL.A) is a Dividend Aristocrat owing to its growing dividends since 2010 (9% CAGR).

The sample computation above doesn't include dividend growth. Since the two stocks pay an average dividend yield of 4.93% and payouts increase yearly, the $50,000 capital could grow to nearly

$700,000 in 25 years. The miracle of compounding happens when you keep reinvesting the dividends and do not touch the principal.

Defensive holding

Utility stocks aren't as exciting as high-growth tech stocks, but they're defensive holdings during inflationary periods. Canadian Utilities is low risk, because its utility assets are highly regulated. It means that the financial position of this $10 billion company is generally stable regardless of the economic environment.

In 2021, consolidated adjusted earnings increased 9.53% to $586 million versus 2020. Canadian Utilities spent $334 million in capital projects in Q4 2021, where 75% and 25% went to investments in regulated utilities and energy infrastructure, respectively. At $37.42 per share, the dividend yield is 4.79%.

Growth opportunities

The Omicron variant caused significant operational disruptions to Transcontinental. While revenue in Q1 fiscal 2022 increased 10.9% versus Q1 fiscal 2021, operating earnings fell 28.4% to $33.8 million. This $1.53 billion company is Canada's largest printer and a leading flexible packaging firm in North America and Latin America.

President and CEO Peter Brues said Transcontinental is well placed to take advantage of growth opportunities and achieve its full potential in 2022. Despite the setback, market analysts covering the industrial see a 39.28% upside potential in 12 months. At $17.59 per share, the dividend offer is a 5.07%.

Real income

Receiving passive income for life from dividend stocks isn't a myth. People with long-term financial goals invest to create passive income and boost retirement income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:TCL.A (Transcontinental Inc.)

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cliew