Passive Income: 7 Reasons to Own This Monthly Dividend Stock

Description

Passive-income investments should give you peace of mind to own them. They should require little attention from you (if at all) to manage them. In fact, the best passive-income investments should only require you to buy them at good valuations and do nothing more but hold them for passive income. Here's one monthly dividend stock I own for passive income.

A big dividend stock

The number one thing that attracts passive-income investors to **Canadian Net REIT** (TSXV:NET.UN) is its high dividend yield. Its yield is close to 4.3% at writing, which is substantially higher than the Canadian stock market's yield of approximately 2.5%. So, for each dollar invested, investors can get about 70% greater income! Its funds from operations (FFO) payout ratio of about 52% is sustainable.

Stable business and cash flow

Canadian Net REIT's top tenants are grocery and convenience stores, including **Loblaw**, **Walmart**, Sobeys, **metro**, **Parkland**, and **Couche-Tard**. It can rely on these defensive tenants for rental income.

It owns a portfolio of quality commercial real estate leased on a triple-net or management-free basis. Triple-net leases that entail variable costs like insurance, taxes, and maintenance are taken up by tenants. Management-free leases, as the name implies, mean that tenants are responsible for managing the property or hiring another party to do it. These types of leases essentially lower the cost of operation for the REIT. Combined with the REIT's average lease term to maturity of about seven years, it produces relatively stable cash flows.

Above-average growth

Canadian NET REIT's cash flows are not only stable but also growing. Since 2012, it has increased its FFO per unit at a compound annual growth rate (CAGR) of 14.1%. This translated to cash distribution growth at a CAGR of 10.5%. Both are above-average growth rates! In essence, it has increased its dividend sustainably by raising it slower than its cash flow growth.

This Canadian REIT is perfect for the TFSA

REIT cash distributions are taxed differently than dividends. A large portion of Canadian Net REIT's cash distribution in the last 10 years has been returns of capital that essentially reduce the cost basis of investors' stock investments. To sidestep the hassle of keeping track of your average cost basis in a non-registered account, buy and hold units in your TFSA for passive monthly income tax free.

Discounted dividend stock

At $7.93 per unit, the defensive REIT is discounted by 15% according to the 12-month analyst consensus price target of $9.33 across six analysts shown on Yahoo Finance. It trades at about 13.8 times FFO, which is a decent valuation to pay for its expected double-digit growth rate.

Diversification

The stable REIT generates rental income across 95 properties — up from 74 properties at the end of 2020. The REIT continues to acquire suitable properties. By buying the REIT, investors gain immediate additional diversification for their real estate investment portfolios, which could include their homes, rental properties, and other REITs.

Low trading volume and low volatility

The stock has dipped only 4% from its recent high. On most market days, the stock seems to hardly move. In the long run, over the last 10 years or so, it has delivered annualized returns of approximately 13.6%, which is above average versus the average market returns of 7-10%.

Its low volatility and low trading volume make it the perfect addition to passive-income investment portfolios. It may be helpful to buy on down days or set a limit order for the longest expiry date to increase your chance of filling your order at the lowest prices.

Essentially, all you have to do is buy the stock at good valuations when you have some extra money and watch your monthly passive income grow. Don't just depend on one stock, though. Rather, build a basket of dividend stocks you can rely on for passive income!

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