The 3 Best Dividend Stocks for Passive Income

Description

The best dividend stocks for passive income have the following traits. They should provide high dividend yields that are safe and ideally growing. Sometimes, you might even accept a bigger yield to compensate for little to no growth.

Last week, the Bank of Canada raised the overnight rate to 1%. The best GIC rate is also higher than a year ago at 2.9% now. Rising interest rates have made dividend stocks less attractive. However, some passive-income investors would buy dividend stocks in a heartbeat if they could get double the income of 2.9% on a 5.8% yield.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) stock is excellent for passive income. Despite the dividend stock appreciating about 18% year to date thanks to the rally in energy prices, Enbridge still offers a competitive yield of close to 5.9%.

It's difficult to beat this kind of passive income when the dividend stock is a Canadian Dividend Aristocrat with a long track record of more than 20 consecutive years of dividend increases. Because of the utility-like nature of its business, Enbridge has maintained highly stable cash flows.

Going forward, management sees the company increasing its distributable cash flow by about 3-5% per year. Therefore, based on a sustainable payout ratio, Enbridge stock should also increase its dividend by at least 3%. Assuming a 3% growth rate, a long-term investment can deliver annualized returns of about 9%, as the stock is fairly valued today.

NorthWest Healthcare Properties REIT

NorthWest Healthcare Properties REIT (TSX:NWH.UN) also provides a yield of close to 5.8%. Conveniently, it pays out monthly cash distributions, which work out well to help pay the bills. If you have room in your Tax-Free Savings Account (TFSA), it's a neat idea to place NWH.UN units in your

TFSA for tax-free income.

Over the years, the REIT has expanded its global healthcare properties portfolio across Canada, the U.S., Australia, New Zealand, the U.K., Brazil, etc. Its cash flows are long-lasting, as its portfolio's weighted average lease expiry is roughly 14 years. Its defensive portfolio also maintains a high occupancy of 97%.

The monthly dividend stock delivered five-year annualized returns of approximately 10.2%. Most returns came from its cash distributions. Like Enbridge, NWH.UN stock is fairly priced right now.

What if you don't need income now?

If you don't need income now, you can very well buy dividend stocks that offer lower yields but higher growth now. The idea is that these stocks can potentially increase their dividends at a faster rate, leading to greater passive income and price appreciation down the road.

Stella-Jones (TSX:SJ) makes utility poles, railway ties, and residential lumber. Management has good control of costs, as it was able to improve its operating margin from 11.2% in 2019 to 11.9% in 2021.

Its yield of just over 2% isn't as attractive as the juicy income from Enbridge and NorthWest Healthcare Properties REIT. However, it can increase its dividend faster. Its five-year dividend-growth rate is 12.5%, and its dividend hike last month was 11.1%. This year, its estimated payout ratio is 23%. Importantly, Stella-Jones is an undervalued dividend stock that can appreciate 34% over the next 12 months, according to the analyst consensus price target.

CATEGORY

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2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
4. TSX:SJ (Stella-Jones Inc.)

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