Passive Income: 2 Dividend Stocks to Buy and Hold Forever

Description

As **RBC** noted in an article, “Most amounts received from a life insurance policy are not subject to income tax. Regardless of the size of the policy, your spouse, child or anyone else you’ve named as a beneficiary would not have to report life insurance proceeds as taxable income on their Canadian tax return.” In other words, most amounts received from a life insurance policy are tax free, which makes it a wonderful way to pass wealth to loved ones.

Therefore, companies like **Sun Life** (TSX:SLF)(NYSE:SLF) and **Manulife** (TSX:MFC)(NYSE:MFC) are here to stay. Investors seeking passive income should consider investing in these dividend stocks.

Sun Life stock

Sun Life stock is a darling dividend stock in the life and health insurance industry. It experienced solid three-year revenue growth of 9.8% annually. In the period, its income before tax increased at a rate of 13.2%, while its net income increased at a compound annual growth rate (CAGR) of about 14.5%. It’s more telling to observe the earnings-per-share (EPS) growth as well. Specifically, the dividend stock’s adjusted EPS increased at a CAGR of about 7.5% in the period.

At $64.73 at writing, Sun Life stock trades at a discount of about 14% with 12-month upside potential of about 17%. Importantly, it pays a nice yield of almost 4.1%. Its dividend is protected by a sustainable payout ratio of about 44%. Its earnings have also been stably growing in the last 10 years or so.

Sun Life stock appears to be a good pick for passive income, given its earnings stability and persistent growth, generous yield, and reasonable valuation.

Manulife stock

If you want an even juicier yield, you can consider Sun Life’s peer, Manulife stock. At $25.28 at writing, Manulife stock offers a higher yield of 5.2%. Its 2022 payout ratio is estimated to be approximately 38%. MFC stock trades at a bigger discount than Sun Life. Specifically, it trades at about 7.6 times earnings, while analysts believe its EPS can grow as high as 13% a year over the next three to five years.

I'm not sure what it would take for MFC to return to a higher valuation, but the dividend stock can potentially trade at about 50% higher. Some analysts believe that the discount is due to its exposure to Asia, which is impacted by zero-COVID policies in Chinese cities.

MFC's three-year revenue-growth rate is 17.1%. In the period, its income before tax increased at a rate of 13.8%, while its net income increased at a CAGR of about 12.5%. On a per-share basis, its adjusted earnings increased at a CAGR of about 5.9%.

Rising interest rates

Here's some good news for income investors: the best GIC interest rate has hit 4% now! Rising interest rates make dividend stocks less attractive. Therefore, SLF and MFC stock could continue to be weighed down over the next months. That said, it will eventually get to a point where they are too attractive to ignore. After all, they have the ability to increase their dividends and provide price gains potential.

Between the two insurance stocks, Sun Life is often viewed as the sleep-better-at-night passive-income investment. This is why it commands a higher price-to-earnings multiple. However, if you need current income, SLF's lower yield can't beat MFC's dividend income generation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/06/29
Date Created
2022/05/01
Author
kayng