Generate Passive Income From Equipment Leasing

Description

Canadian investors have plenty of opportunities for passive income. Oil and bank stocks offer substantial dividends that seem to be expanding this year. Meanwhile, owning rental properties is a national sport. However, all these asset classes are cyclical.

In other words, when interest rates rise or oil prices drop, these dividends and rental income shift. As the economy becomes more unpredictable, you need a safer source of passive income. Equipment leasing could be the ideal asset class for this. Here's a closer look.

Equipment leasing

Corporations and government agencies tend to rent heavy equipment for industrial projects. This could include agricultural machinery, construction equipment, or vehicles. Lease terms are fixed for several years, which means the owner of these capital goods can expect payment regardless of economic cycles.

The yield on equipment is also higher than rental property or commercial loans. That's what makes this an attractive asset class.

Unfortunately, most retail investors have limited access to equipment leasing. Institutional investors and family offices can make these deals in private with small- or medium-sized businesses. But for the ordinary investor, there are few publicly listed options. Here are the top two stocks in the industry.

Top stocks

Toromont Industries (TSX:TIH) and **Exchange Income** (TSX:EIF) are both pure-play equipment leasing companies on the Toronto Stock Exchange.

Vaughan-based Toromont Industries offers heavy equipment for large construction, mining and agricultural projects. Business has been so stable that the company has hiked its dividend every year for 33 years! That makes it one of the best Dividend Aristocrats on the Canadian market.

Last year was exceptionally good. Toromont's net income surged by 24%. At the moment, the company's backlog is worth $1.5 billion. That means cash flows are safe, despite the upheaval in the rest of the economy.

Exchange Income is even more niche. The company owns critical aircraft such as emergency helicopters and goods carriers. One segment of their portfolio offers helicopters that help construct telecommunications towers. That's how esoteric this company is.

The stock has doubled since the depths of the pandemic and still offers a hefty 5.65% dividend yield. This dividend is paid out every month, which makes the stock an ideal target for passive income.

Essential services such as helicopter ambulances, fire safety, and medical equipment transport are disconnected from the economy. That means Exchange Income could be a safe haven during economic volatility.

Bottom line

A stable yield is the key to reliable passive income. Banks, energy, and real estate offer attractive yields, but their income is tied to the economy. If the economy dips, these dividends could be cut or even suspended.

Passive-income investors who rely on their portfolios for living expenses need a safe anchor. Equipment leasing could be that anchor. This asset class is detached from the rest of the economy and offers attractive yields. Toromont Industries and Exchange Income are two publicly listed options for retail investors seeking passive income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)
2. TSX:TIH (Toromont Industries Ltd.)

PARTNER-FEEDS

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2. Koyfin
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