Passive Income: Get up to 6% Dividend From These 3 Undervalued Dividend Stocks

Description

Consider getting passive income from these dividend stocks that are trading at good valuations! They provide yields of about 3-6%.

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Bank of Nova Scotia stock

Big Canadian bank stocks are good for passive-income consideration, especially after their recent dips. In particular, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock offers the highest yield of the Big Six Canadian banks.

The international bank stock dipped more than 13% from its 52-week high. At about $82 per share at writing, it trades at a cheap multiple of about 10 times earnings. A reversion to its long-term normal price-to-earnings ratio (P/E) suggests upside potential of about 18% over the next 12 months.

Importantly, BNS stock provides a yield of almost 4.9%. Its juicy dividend is sustainable with a payout ratio of about 48% this year. Over the long term, investors can expect earnings growth of about 5-6% per year, resulting in similar growth in the dividend for passive-income generation.

Investors with an appetite for greater passive income now can consider the following real estate investment trust (REIT).

NorthWest Healthcare Properties REIT

It's a good time to consider global healthcare REIT **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) for passive income. After dipping more than 11% from its 52-week high, at $12.79 per unit at writing, the REIT trades at a discount of 16% from analysts' consensus 12-month price target. It also trades at a discount of 12% from its 2021 ending net asset value.

The healthcare REIT has about $10 billion in assets across 224 properties. Its defensive portfolio of hospital and healthcare facilities enjoys a high occupancy rate of 97% and long-term leases that makes highly secure cash flow generation. Specifically, its weighted average lease expiry is about 14 years.

NWH.UN pays a monthly cash distribution that equates to a high yield of 6.25%. By holding the stock in a Tax-Free Savings Account (TFSA), investors can enjoy rich passive income without the hassle of tax reporting that can get a little complicated for REITs.

Magna International stock

Magna International (TSX:MG)(NYSE:MGA) is an interesting dividend stock for passive income. The auto part maker is a cyclical company, but because it maintains a low payout ratio through economic cycles, it has been able to increase its dividend every year for more than a decade.

Its recent results have been dragged down by supply chain issues surrounding semiconductor chip shortages and lower auto production in Europe due to the Russia-Ukraine war. Additionally, higher inflation in production input costs, such as commodities, energy, labour, and freight doesn't bode well for the company. However, the stock has already corrected approximately 38% from its 52-week high and trades at a reasonable valuation of about 11.8 times earnings.

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Taking a look at the company's past results gives a hint for the future. From 2010 to 2021, Magna International increased its earnings per share at a compound annual growth rate of about 8.2%. This is the smoothed-out earnings growth.

During this period, it experienced double-digit rate declines in 2019 and 2020 but also double-digit growth rates in most other years. Therefore, if history is telling, as management estimates a marginal decline in earnings this year, the company can potentially experience growth rates in double digits over the next three to five years. No matter what, investors will earn passive income from an initial 3% yield on a sustainable payout ratio of about 36%.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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