Passive Income: Grab Yields of up to 5% From These Solid Dividend Stocks

Description

By focusing on generating passive income, investors can largely ignore short-term stock price volatility. It doesn't suffice to just blindly jump into big-dividend stocks. The key is to buy attractively valued dividend stocks that provide sustainable and attractive income and should continue increasing their dividends. Also, at the end of the day, passive-income investors need to have peace of mind holding these dividend stocks. With that said, here are a couple of dividend stocks you can look more closely into for passive income.

Bank of Nova Scotia stock

Big Canadian bank stocks have been participating in the current market downturn. Finally, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock has hit a juicy dividend yield of 5%. This safe income is getting compelling for passive-income investors.

Not every dividend stock should be considered for passive income, but big Canadian bank stock BNS is an exception. Because its core operations are in Canada, it benefits from the oligopoly environment, which allows it to earn stable earnings growth for the long haul. For example, in the past 10 years, its earnings-per-share growth rate was approximately 5.3% per year. Combined with a sustainable payout ratio, the bank stock was able to increase its dividend by about 5.8% per year.

The big dividend stock is already undervalued right now at under $80 per share at writing. Specifically, analysts have a 12-month price target that suggests it has near-term upside potential of close to 19%. This price target of over $95 per share aligns with the target of its long-term normal price-to-earnings ratio. Consequently, an investment of, say, five years could generate double-digit returns of north of 13% from a big dividend, stable earnings growth, and valuation expansion.

Sun Life Financial stock

Sun Life Financial (TSX:SLF)(NYSE:SLF) stock is also another juicy dividend stock in the financial services sector that's attractive. The dividend stock of the life and health insurance company has been a darling in the industry. So, its retreat in this market downturn is a good opportunity to buy at a discounted valuation.

At about $61 per share at writing, SLF stock trades at about 10 times earnings, a discount of about 15% from its normal long-term valuation. It also provides a juicy yield of about 4.3%.

Here's a glance at Sun Life's earnings quality. Since 2012, its earnings-per-share growth rate was approximately 8.8% per year. Combined with a sustainable payout ratio, the dividend stock was able to increase its dividend by about 5.4% per year. Its estimated payout ratio of 44% this year continues to provide safety for its regular dividend.

The Foolish investor takeaway

So far, the U.S. stock market has corrected more severely than the Canadian stock market. Although it can be tempting to deploy capital in undervalued dividend stocks and start earning passive income, it would be a good idea to leave some dry powder on hand. No one knows how long the market downturn may last for. So, it would be smart to build positions over time to take advantage of potentially lower prices.

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3. TSX:SLF (Sun Life Financial Inc.)

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