Passive Income: 2 Dividend Stocks Yielding About 4-5% to Buy Now

Description

Canadians can get passive income from dividend stocks that pay out sustainable dividends. Ideally, these dividends will rise regularly. Canadian bank stocks continue to be anchors of dividend portfolios. Particularly, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) remains an excellent choice for passive income.

Bank of Nova Scotia stock

The international bank stock recently hit a yield of about 5%. This yield threshold seems to provide support for the stock as investors gobbled up shares, driving the solid shares up to a yield of about 4.8% at writing.

The bank has paid regular dividends for over a century. It was able to maintain its regular dividend through the global financial crisis about 14 years ago and the COVID-19 pandemic around 2020. It seems like there's nothing that can stop it from paying its dividend.

Indeed, for the long haul, Bank of Nova Scotia has increased its earnings per share (EPS) and dividend. For example, in the past 10 years, the bank stock increased its earnings and dividend per share (DPS) at a compound annual growth rate (CAGR) of roughly 5.2% and 5.8%, respectively.

Going forward, its earnings-growth rate and dividend yield should drive long-term returns more or less in the 10% range. Valuation expansion can further add another 2% rate to returns as BNS stock is slightly undervalued.

In most years, BNS stock maintains a payout ratio of below 50%. The 2022 payout ratio is also expected to fall in line at about 48%. As a result of a sustainable payout ratio and expected stable earnings growth, investors should be able to earn growing passive income from the stock with peace of mind.

Canadian Tire stock

Canadian Tire (TSX:CTC.A) is another interesting dividend stock for passive income. The specialty retailer has a number of brands under its umbrella. Of course, most notably, it's Canadian Tire. Its other brands include Sport Chek, Party City, and Mark's, among others. The dividend stock just increased its dividend incredibly by 25%, leading to a forward yield of about 3.9%. Its payout ratio is estimated to be sustainable at about 32% this year.

It's a consumer cyclical stock. However, its earnings would tell you otherwise, as they don't appear to be that cyclical. At least, its EPS have been more stable than Bank of Nova Scotia's around the time of the global financial crisis and during the pandemic. Particularly, Canadian Tire's stable earnings in 2020 was partly attributable to its having the financial flexibility to buy back shares during a highly uncertain time in the economy.

Looking at the bigger picture, in the past 10 years, the specialty retailer increased its EPS and DPS at a CAGR of roughly 12.7% and 15.6%, respectively.

Over the next few years, its earnings-growth rate and dividend yield should drive long-term returns more or less in the 10% range. Valuation expansion can further add another 5% growth rate to its returns, as the retail stock is undervalued.

The Foolish investor takeaway

Both BNS and Canadian Tire stocks are good for passive income now. Should they correct further, they could be even better buying opportunities for more passive income, as both have demonstrated growing healthy dividends in the long run.

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2. Investing

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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