Top 3 Dividend Stocks for Passive Income

Description

Dividend stocks are the key to reliable passive income. However, some stocks are heavily exposed to the market cycle. That means they cut dividends when the economy dips into recession or their cost of debt rises too high.

With rising inflation, higher borrowing costs, and slower growth, several companies could be forced to cut or suspend dividends this year. Long-term investors need to avoid these cuts. With that in mind, here are the top three dividend stocks that could sail through this crisis and deliver reliable passive income.

Essential aircraft leasing

Winnipeg-based **Exchange Income Fund** (TSX:EIF) is likely to be the most obscure dividend stock on this list. The company offers aircraft leasing and maintenance services. However, the portfolio is designed to "avoid economic cycles." In other words, the company focuses on essential services such as fire fighting, medical evacuation, cell tower construction, and high-pressure water cleaning.

The company also owns a training facility in Memphis, Tennessee, for unmanned aerial vehicles for the U.S. Department of Defence. That's yet another example of how EIF's portfolio is completely detached from the traditional economy.

The company has managed to steadily expand dividends over the years. Dividends per share have jumped from $1.08 in 2004 to $2.4 today. That's a compounded annual growth rate of 4.5% over 18 years. At the moment, EIF offers a dividend yield of 5.4%.

Telecommunications

BCE (TSX:BCE)(NYSE:BCE) is another robust dividend stock that should be on your watch list. Wireless communications and broadband are essential utilities, which means the dividends from this sector are relatively safe.

BCE stock offers a 5.2% dividend, which is one of the highest in the industry. The company's dominance also gives it more pricing power — a key strength during economic downturns. The company is also strengthening its position by investing $2 billion in new 3,500 MHz spectrum. That puts it ahead of the curve in the 5G revolution.

Management expects free cash flow growth of between 2% and 10% this year. Even on the lower end of that range, the stock is more reliable than most other dividend stocks. For passive-income seekers, this is a top pick.

Renewable energy infrastructure

Investments in green energy are another secular trend investors could bet on. This year's energy crisis has been exacerbated by geopolitical conflict and a shortage of fossil fuels. Households across the world face a higher energy bill, because most of them don't produce oil or gas domestically and must rely on a cartel of suppliers with too much power.

Renewable energy could be the key to solving this crisis over the long term. Unlike oil drilling and coal mining, wind farms and solar arrays can be constructed anywhere. Over time, I expect trillions of dollars to flow into this sector.

TransAlta Renewables (TSX:RNW) is at the forefront. The company owns and operates a network of 40 renewable energy facilities across Canada, the U.S., and Australia. Fixed pricing and long-term contracts with government agencies and corporate buyers make this a secure business with recurring cash flows.

TransAlta stock offers a 5.3% dividend that could expand over the next decade.

CATEGORY

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2. TSX:BCE (BCE Inc.)
3. TSX:EIF (Exchange Income Corporation)
4. TSX:RNW (TransAlta Renewables)

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