



Passive Income: 3 Top TSX Stocks That Pay Dividends Monthly

Description

Is your cash stashed in the cupboard? If yes, it is losing value due to the 7.6% [inflation](#) in July. High inflation reduces the purchasing power of your dollar. To survive in this environment, you want your money to make more money to ensure it retains its purchasing power. Dividend stocks can put your money to work.

Luckily, high inflation has pulled down the price of several dividend stocks and increased their yields. The dividend yield is the dividend per share as a percentage of the stock price. If a stock trading at \$100e a d pays \$5 in dividends, it has a dividend yield of 5%.

Three stocks under \$20 with over a 5% dividend yield

But you don't have to spend \$100 a share to get a 5% yield. Here are three stocks under \$20 paying regular monthly dividends.

- **Timbercreek Financial** ([TSX:TF](#)) – 8.2%
- **Slate Office REIT** (TSX:SOT.UN) – 8.8%
- **TransAlta Renewables** ([TSX:RNW](#)) – 5.3%

All are small-cap stocks, so they do carry risk. The high dividend yield is the premium for taking this risk.

Timbercreek Financial has a dividend yield of over 8%

Timbercreek Financial is a non-bank lender that provides commercial real estate investors with shorter-duration mortgages for property repairs and redevelopment. Developers repay these mortgages from the sales proceeds or their longer-term mortgages. Timbercreek reduces its credit risk by offering mortgages to income-generating commercial property at a floating rate.

The company benefits from loan processing fees and changes in interest rates. If interest rates rise, it gets a higher interest income but lowers loan turnover. If interest rates fall, its loan turnover increases but the interest income margin falls. It has been distributing its processing fees and interest income to shareholders through monthly dividends since July 2016.

Timbercreek has adequate provision for bad debt, but it remains to be seen if it can handle a full-blown recession leading to a mass default. As a small-cap stock, it has lower liquidity. So if you are not looking to withdraw your principal in a hurry and want to enjoy regular monthly dividends, Timbercreek is the stock for you.

Slate Office REIT offers an 8.8% yield

The rising interest rates have slowed real estate price growth. Slate Office [REIT](#) reported a \$3.6 million loss on the fair market value of investment properties. But this loss was more than offset by a 19.1% rental spread that increased its second-quarter rental income by 18.7% year over year. This pure-play commercial REIT earns 67% of its rental income from government and high-quality credit tenants like **BCE** and **CIBC**. Its portfolio is diversified across Canada (70%), the United States (17.2%) and Ireland (12.8%).

If you are worried about Canada's housing bubble, Slate's diversified portfolio and government tenants could reduce the impact on its shares. However, Slate Office has risks associated with small-cap stocks, like lower liquidity, competition from market leaders, and limited access to capital. But it has an attractive distribution yield of 8.7%, and the REIT has been paying regular monthly distributions since 2013.

Most dividend aristocrats have the highest yield of 6%. Slate Office's addition of 2.7% yield is the premium you get for taking the risk of lower liquidity.

TransAlta Renewables

When building a portfolio, you need to diversify across industries and energy stock TransAlta does that. This renewable power generation company has long-term supply contracts. The company has been paying regular monthly dividends since 2014 without any cuts. It expects its dividend payout ratio to be between 88% and 102% in 2022. The dividend payout ratio is the percentage of distributable cash flow the company uses to pay dividends.

A ratio of 100% is not sustainable as the company is growing. But when cash flow from new projects comes, it aims to reduce this ratio to the 80%-85% range. The stock has been moving in the opposite direction to oil stocks, making it a good hedge if you own any oil stocks.

Monthly passive income

The above three stocks are small and mid-cap stocks. They have lower liquidity than large-caps but have been paying premium dividends for over eight years. For every \$1,000 you invest in each stock through your Tax-Free Savings Account ([TFSA](#)), you can earn \$18.65 a month in tax-free passive income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)
2. TSX:RPR.UN (Ravelin Properties REIT)
3. TSX:TF (Timbercreek Financial Corporation)

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Author

pujatayal

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