2 Top Canadian Stocks to Buy for Monthly Passive Income

Description

Dividend stocks are popular for several reasons. These companies deliver consistent profits, allowing them to outperform the broader markets over time. Further, dividend stocks provide a steady stream of passive income and can be used to build wealth while accelerating your retirement plans.

There are several publicly traded companies on the TSX that pay investors monthly dividends. In 2022, the selloff surrounding the equity market has also driven forward yields of these stocks higher, as share prices and dividend yields are inversely related. Let's take a look at two fundamentally strong TSX stocks that pay investors monthly dividends that can offset the effects of inflation and rising interest rates.

An energy infrastructure company

The first stock on my list is **Pembina Pipeline** (TSX:PPL), an energy transportation and midstream service provider in North America. It owns and operates an integrated network of natural gas pipelines and hydrocarbon liquids, gas gathering and processing facilities, an export terminals business, as well as oil and natural gas liquids infrastructure.

Its integrated value chain allows Pembina Pipeline to provide safe and reliable infrastructure solutions globally, connecting energy producers with consumers.

Pembina currently pays investors an annual dividend of $2.61 per share, translating to a forward yield of 6%. So, an investment of $5,000 investment in Pembina stock would allow investors to generate $300 in annual dividends, indicating a monthly payout of $25.

If you'd invested $1,000 in Pembina stock in October 2002, you could have purchased 89 shares. Today, these 89 shares would pay you annual dividends of $233, increasing your effective yield to 23.3%. In the last two decades, Pembina stock has returned 277.6% to investors. After adjusting for dividends, total returns are closer to 1,340%.

Pembina Pipeline has a strong balance sheet and ended the second quarter (Q2) with $2.7 billion of liquidity. Its debt-to-EBITDA (earnings before interest, tax, depreciation, and amortization) is also sustainable at 3.6 times. Equipped with an investment-grade balance sheet, the energy company has maintained its dividend payout since 1998. Its payout ratio in 2021 stood at 53%, providing Pembina with enough room to increase dividends in the future and invest in expanding its cash-generating assets.

Around 88% of its adjusted EBITDA is backed by fee-based contracts, allowing Pembina to maintain cash flows across market cycles. Due to its stable cash flows, the company has increased dividends by 5%, adjusted EBITDA per share by 11%, and operating cash flow per share by 10.1% annually in the last 10 years.

A mobility company

Savaria (TSX:SIS) is a TSX stock that operates in the mobility space. In the last 20 years, Savaria has returned 939% to investors in dividend-adjusted gains. A $1,000 investment would allow investors to buy 345 shares of Savaria in October 2002. These shares would provide investors with an annual dividend of $179.4 today. For future investors, Savaria offers a dividend yield of 3.71%.

Valued at a market cap of $885 million, Savaria is trading at a discount, given its growth forecasts. The stock is valued at 23 times forward earnings. But Bay Street analysts expect the company to more than double its adjusted earnings between 2021 and 2023.

Due to its attractive valuation, Savaria stock is trading at a discount of over 50%, given consensus price target estimates.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:SIS (Savaria Corporation)

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