2 High-Yield Utility Stocks to Earn Passive Income for Years

Description

You'd be hard pressed to find a better TSX sector for earning passive income than utility stocks. Utility revenues and earnings are generally supported by contracted or regulated assets. This means that they earn a baseline of revenues that are low risk, recurring, and reliable. This tends to support an attractive dividend.

As demand for their services increases, utilities build more infrastructure on which they earn an approved rate of return. As their asset portfolio grows, so do their revenues, earnings, and dividends.

Utility stocks are perfect investments for earning long-term passive income

That is why many utilities have very long histories of consistently growing dividends. With bond yields rising, many utility stocks have pulled back in price. If you want to lock-in a rising stream of passive income, now could be an opportune time to invest in the sector. Here are two TSX stocks that should earn growing passive income for years ahead.

Algonquin Power: A beaten-down utility for high passive income

Algonquin Power and Utilities (TSX:AQN)(NYSE:AQN) is trading with a dividend yield of 6.94% after its stock has fallen 21% this year. Earlier this year, Algonquin announced the $2.7 billion acquisition of Kentucky Power. It issued quite a bit of debt and equity to fund this purchase.

The deal is taking longer to complete than expected and that has been a drag on the stock. The delay could create some near-term earnings dilution until the deal completes.

If investors can be patient, buying this passive income stock right now could pay off. Algonquin has a diversified portfolio of water, gas, and electric utilities, as well as a large green power portfolio. It has expertise at helping under-operating utilities maximize return on investment over the long-term. If it can execute, the Kentucky deal could be nicely accretive to next year's earnings.

Algonquin has an excellent history of dividend growth. Since 2012, it has increased its dividend annually by around 9%. Given its robust capital plan, Algonquin should continue to grow its dividend by a hig single digit rate ahead.

TransAlta Renewables: Cheap with a high monthly dividend

TransAlta Renewables (TSX:RNW) is another utility stock that could earn a bountiful stream of passive income. After a 28% decline in 2022, its stock trades with a 7% dividend yield. It operates 50 renewable power facilities that generate over 3,000 megawatts (MW) of power across Canada, the U.S., and Australia.

The stock has suffered since the the green power generator discovered that a large wind project in New Brunswick had a faulty foundation. The company is hoping to get this facility back into operation in mid-2023. Despite these challenges, it still grew adjusted EBITDA and free cash flow last quarter by 30% and 23%, respectively.

TransAlta continues to have a good balance sheet and its net debt-to-EBITDA ratio of 2.5 times remains at an industry low. The utility has not increased its dividend for several years, but it does pay out passive income monthly.

With an enterprise value-to-EBITDA of 8, TransAlta Renewables is trading at the low end of its valuation range. For value and a big passive income stream, TransAlta Renewables is one utility stock to consider today.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:RNW (TransAlta Renewables)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. robbybrown

Category

1. Energy Stocks
2. Investing

Date
2025/08/16
Date Created
2022/10/25
Author
robbybrown