Want $100/Month in Easy Passive Income? Buy 470 Shares of This Canadian Stock

Description

Investors on the hunt for passive income need to be cautious about what Canadian dividend stocks they buy right now. Interest rates have risen quickly, and it is putting pressure on the earnings of many stalwart Canadian dividend stocks.

A Canadian dividend stock to be cautious of

A notable recent decliner is **Algonquin Power and Utilities** (TSX:AQN). It saw its stock drop over 30% after it reported weaker-than-expected earnings and guidance in the third quarter. Algonquin Power was considered a reliable business given its large exposure to regulated utilities and renewable power.

However, over the past few years, it has taken on a little too much debt. A fifth of this debt was subject to variable interest rates, and that is now quickly eating up Algonquin's earnings. With fears about too much debt and a potential dividend cut, this Canadian stock has rapidly fallen.

A Canadian dividend stock to consider adding

That is why it is crucial to own stocks with good balance sheets and the opportunity to even grow through the current economic challenges. One Canadian stock that looks to be well equipped to do that is **Pembina Pipeline** (TSX:PPL).

With a price of $46.72, Pembina stock has a market cap of $25.77 billion. It is one of the largest providers of midstream (gas processing infrastructure, fractionation) and transportation (pipelines and export terminals) services in Western Canada. It provides oil and gas producers a wide array of transporting and processing solutions across the energy value chain.

Over 85% of its services are contracted to investment grade or secured counterparties. This means that this Canadian stock collects a relatively predictable stream of cash, even when energy prices fluctuate. Even when oil hit zero in 2020, it continued to pay and support its dividend. This is evidence of the quality of its operations.

2022 has been a strong year for Pembina Pipeline

This Canadian stock has delivered strong results in 2022. Year to date, Pembina's revenues have risen 47% to $8.9 billon. Cash from operating activities, adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), and earnings per share are up 3.7%, 14.5%, and 147%, respectively. Pembina just increased its dividend by 3.6% after creating a new joint-venture project with **KKR**. That deal is already creating growth opportunities and smart synergies.

Given issues such as global energy security and rising energy demand, Pembina is well positioned. It has several growth initiatives in LNG exports, hydrogen, carbon sequestration, and conventional energy infrastructure. These could provide steady growth in years to come.

Unlike Algonquin, Pembina's balance sheet is in a strong position. It has a net debt-to-EBITDA ratio of 3.6, which is below its target range and below most utility and pipeline peers. Likewise, 97% of its debt is fixed with an average debt tenure of 13 years. That means it should have no major interest expense surprises any time soon. Its dividend is well covered by contracted cash flow and its payout sits safely around 54%.

Buy 470 shares and earn $100 a month

If you put $22,000 into Pembina stock, you would be able to buy approximately 470 shares. Given its 5.6% dividend yield today, this Canadian stock would earn about $100 per month in passive income.

The dividend will soon be moved to a quarterly dividend, but your average monthly return will remain the same. For a relatively defensive Canadian stock with reasonable growth and income ahead, Pembina Pipeline is attractive for a long-term hold.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:KKR (KKR)
3. TSX:PPL (Pembina Pipeline Corporation)

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