

2 of the Best Stocks to Buy for Fast-Growing Passive Income

Description

It's that time of year when companies revisit dividend payments and distributable cash flows and decide the dividend per share for 2023. If you seek to invest in stocks to earn passive income, now is the chance to lock in the 2023 dividend growth.

What 2023 holds for dividend stocks?

The TSX has some dividend aristocrats that have increased their dividends even in a recessionary environment. And 2023 doesn't ring a recession warning bell for Canada, so [say](#) economists in a *Reuters* article. While economists cut Canada's GDP forecast for 2023, a few sectors like oil and gas and telecom remain strong. Why so?

The global energy crisis triggered by the Russia-Ukraine war will keep oil and gas prices at their current inflated levels, bringing higher cash flows to energy companies for the next few years. The growing adoption of artificial intelligence (AI) and the cloud will accelerate the uptake of 5G. The fifth-generation technology brings broadband-like internet to edge devices. The adoption of AI and other advanced technologies will drive 5G subscribers.

The above global trends will help market leaders maintain healthy cash flows in their respective industries. No doubt, **BCE** ([TSX:BCE](#)) and **Enbridge** ([TSX:ENB](#)) are some of the best [dividend stocks](#) to earn growing passive income in 2023 and beyond.

BCE stock

BCE's three-year accelerated fibre and 5G build-out are nearing an end in 2022. Almost 80% of its build-out is complete. It is on track to make 5G+ available to ~60% of the addressable market by year-end. A wider network reach has helped BCE set a new record in net additions to wireless subscribers. This subscriber growth has increased BCE's free cash flow (FCF) by 13.4% year over year in the third quarter. The telecom is on track to grow FCF by 2–10% in 2022.

BCE increased its dividend per share by 5% in 2021 when its FCF fell 11% as it channelled the capital towards its 5G network. The FCF growth will continue for the next few years as more devices connect to the internet, increasing its subscriber count and average revenue per user (ARPU). As capital expenditure is reduced in 2023, BCE might have more FCF to distribute to shareholders.

BCE strives to grow dividends by 5% or more annually while maintaining its target payout ratio of 65% to 75% of FCF. The telecom operator increases its annual dividends in April after the full-year earnings are released. Regular investments in BCE stock can grow your passive income at an average annual rate of 5%.

Enbridge stock

Enbridge is another stock that gives regular passive income and also grows it. Before the pandemic dried oil pipelines, Enbridge grew its dividends by ~10%. Enbridge slowed its dividend growth to 7.3% in the 2008 Financial Crisis and accelerated it to 12.1% during the recovery. This change in dividend growth depends on Enbridge's distributable cash flow (DCF).

The company's strategy is to pay out 60–70% of its previous year's DCF. In 2022, it paid a dividend per share of \$3.44 (69% of its 2021 DCF).

Enbridge increases its DCF by increasing its toll rate for transmitting oil and gas and adding new pipelines. It is on track to bring \$3.8 billion worth of projects into service this year that could increase its DCF/share by 8% to \$5.35. Moreover, the global energy crisis has kept Enbridge's pipelines running at full capacity. If the company maintains its 70% payout ratio, it could increase its 2023 dividend per share by 7.3% to \$3.69 in December.

Investor takeaway

Investing in stocks that regularly grow dividends can help you achieve inflation-beating passive income. You could maximize your returns by investing a small amount monthly in such dividend aristocrats. Over time, you will have significant investments that can generate material passive income. By diversifying your dividend portfolio across sectors and company size, you can reduce dependence on an individual stock.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
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