



How I'd Invest \$500 in December to Make Easy Passive Income

Description

Canada's Department of Finance has warned of a tough first quarter of 2023 after the Bank of Canada increased interest rates to 4.25%. The high-interest rate will increase interest expenses for several companies with large exposure to floating-rate loans, thereby reducing corporate profitability. But high-interest rates are boding well for lending companies. Despite this, a few [passive income](#) stocks have dipped significantly in December.

Timbercreek Financial stock makes a new 52-week low in December

Timbercreek Financial ([TSX:TF](#)) stock has fallen 12% since November, sliding even before the Bank of Canada hiked the interest rate by 50 basis points. The company offers short-term mortgages to [real estate](#) companies to help them develop or buy income-generating properties. At the end of September, it had a net mortgage portfolio of \$1.3 billion, of which 93% is floating rate loans. In December, one of its customers Groupe Sélection filed for protection from its creditors.

Timbercreek Financial has approximately \$212 million invested in Groupe Selection (\$133 million in secured loans from third-party lenders and \$78.1 million of Timbercreek's commitment). Although the company released a [statement](#) that it "has legal options as a first-ranking secured creditor and will continue to act in the best interest of shareholders...", it has created panic among investors. A bad debt to the tune of 16% of the net mortgage portfolio creates a risk of a dividend cut as its adjusted payout ratio is 86.2%.

Are investors overreacting?

While there is a risk of a dividend cut, are investors overreacting by pulling down the stock to its 52-week low? Let's understand the risk. Being in the business of risks, Timbercreek creates a provision for bad debts. It has enough liquidity (\$79.8 million) to take a hit of \$78 million.

Moreover, the company is gaining from rising interest rates. In the third quarter, the Bank of Canada hiked the interest rate by 175 basis points (bps). The rate hike increased Timbercreek's weighted average interest rate to 8.5% from 7.1% in the previous year's quarter. The central bank has hiked interest rates by another 100 bps since September.

The rising interest income could mitigate the impact of credit risk and help Timbercreek maintain its dividend rate. There is the associated risk, but the recent dip has inflated the dividend yield to 9.57%. If the company maintains its dividend per share, you can book an attractive yield for the long term and a chance for capital growth in a recovery rally. If the company slashes the dividend by a third, you can still get a 6% yield at the current share price of \$7.15.

TC Energy stock hits a 52-week low in December

TC Energy ([TSX:TRP](#)) stock fell 16% in less than a month after an oil spill from its Keystone Pipeline in November leaked 14,000 barrels of crude oil. It is the biggest leak in Keystone's history and will cost the company several million dollars. But Keystone forms a small part of TC Energy's EBITDA. TC Pipeline is [estimated](#) to earn 13% of 2022 comparable EBITDA from long-term oil transmission contracts.

Before the oil spill, TC Energy CEO Francois Poirier stated the company's intention to dispose of several assets, including its Keystone pipeline, to reduce debt and eliminate risks of future oil spills. The company aims to grow its comparable EBITDA by investing in natural gas pipelines in the next four years. Are investors overreacting to the oil spill news?

An oil spill of this level weakens investor sentiment because of the significant environmental impact the event has caused. The event might delay TC Energy's short-term goals, but the long-term growth target remains intact. The company is well-funded to sustain its 22-year history of dividend growth. It funds 70% of its capital needs (dividends and capital expenditure) from operations. In the worst-case scenario, the company might halt dividend growth and maintain its dividend per share.

TC Energy's 52-week low share price has created an attractive opportunity for investors to book a [dividend yield](#) of 6.53%.

Two contrarian stocks to invest \$500 in December

The company-specific risk will hurt the above two company's short-term earnings, but their long-term growth remains intact. If you invest \$500 in these contrarian stocks in December and hold them for five years, they can earn easy passive income and grow your capital when things stabilize.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)

2. TSX:TF (Timbercreek Financial Corporation)
3. TSX:TRP (TC Energy Corporation)

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