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

Description

Are you looking to earn a side income without devoting your time and energy? Investments in stocks and rental property can give you passive income for years. The problem with rent is you need significant capital to buy a property. But the other option of stock market investments can earn you a decent passive income equivalent to rent without burning a hole in your pocket. Utility stocks are a good source of passive income as the business is stable and resilient to the macro environment.

Earn higher income investing in high-yield stocks

The average rent of a one-bedroom apartment is $1,400, for which you need to invest around $400,000 to buy a house. But if you want to earn $1,400 a month from investing, you only need to invest $210,000– $280,000 in a stock with an annual dividend yield of 6%-8%. If you invest $1,400 per month in stocks giving a 6% dividend yield, you will reach the $1,400 in monthly passive income in 17 years.

Even better, you can achieve the $1,400 target in 10 years by investing in high-yield stocks and dividend aristocrats that grow dividends every year. Two utility stocks match the requirement.

A high-yield utility stock

After **Algonquin Power & Utilities**, **TransAlta Renewables** (TSX:RNW) is another renewable energy stock that plunged 22% to its 52-week low of $11.27 in December after releasing weak 2023 guidance. Notably, the company stated that rising interest rates and the tax bill is putting pressure on its profits. It expects 2023 adjusted EBITDA to be between $495 million and $535 million, falling short of RBC Capital Markets' estimate of $555 million.

TransAlta Renewables has never cut dividends in its nine-year dividend history. It plans to sustain its dividend (with a 100% payout ratio) and organic growth (by restarting operations at its Kent Hills facilities) in 2023 and beyond. This is a good opportunity to buy the stock and lock in an 8.34%dividend yield. The stock might stay below the $12 price for some time.

In the best-case scenario, the company could continue paying a $0.94 dividend per share and retain its dividend reinvestment plan (DRIP). A $700 monthly investment in the stock for 10 years would buy you 8,717 shares of TransAlta Renewables and a $0.94 dividend per share would accumulate an annual dividend of $8,195.

Moreover, the stock could recover to its average trading price of $16 as the economy stabilizes and interest rates reduce. Any government subsidies and tax incentives for renewable energy could drive the stock price beyond $20.

As a utility stock, TransAlta Renewables enjoys resilient cash flow. But if things go south and the company cuts its dividend or halts its DRIP, retain your holdings in the stock. For a future investment, look for an alternative stock with a yield of over 8%. For instance, you could invest in a commercial REIT as they earn higher rental income.

A utility dividend aristocrat

While TransAlta Renewables is risky, **BCE** (TSX:BCE) has lower risk. This telecom utility is a dividend aristocrat that has been paying regular dividends for over 40 years. BCE is among the few stocks that maintained its dividend growth rate at 5% during and after the pandemic. It had perfect timing for its three-year capital acceleration program (2019–2021) when the interest rate was low. Thus, BCE is not significantly affected by interest rate hikes.

BCE stock fell 5.7% to $60.30 as rival **Rogers Communications** edged closer to acquiring **Shaw Communications**. In 2021, BCE opposed the acquisition as the combined company will have significant power in broadcasting distribution. But BCE has an advantage in the wireless space due to a faster 5G rollout. Moreover, Rogers Communications faced two network outages in the last two years, putting the Roger-Shaw deal in jeopardy.

While the acquisition might pose challenges for BCE's media business, it is unlikely to impact the company's dividends. BCE's stock price dip inflated its dividend yield to 6.06%.

If you invest $700/month in the BCE DRIP for 10 years, you can buy 1,437 shares. The company currently pays a $3.68 dividend per share, and it can grow to $5.99 by 2032 at a 5% CAGR. After 10 years, your BCE investment could earn you $8,611 in passive income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)

2. TSX:BCE (BCE Inc.)
3. TSX:RNW (TransAlta Renewables)

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