3 Smart Canadian Dividend Stocks to Buy for Monthly Passive Income

Description

The uncertainty surrounding the economic environment has made investors risk averse. In an uncertain market, you can smartly protect your portfolio by diversifying across asset classes, sectors, and stock size. Smart diversification is buying uncorrelated stocks. In this way, when one stock underperforms for some reason, the other might remain stable or outperform. Uncorrelated stocks can keep your portfolio evergreen across all market cycles.

Three Canadian dividend stocks to buy for smart diversification

I have identified three uncorrelated Canadian stocks, each of a different sector and size, facing different challenges and opportunities. A $200 monthly investment in each of these stocks can earn you $53/month in passive income after a year and 10-15% capital growth. Let's see how.

Large-cap telecom stock

BCE (TSX:BCE) is the largest telecom company in Canada, with a market cap of $55.07 billion. This stock has been paying a dividend for over 40 years and growing it consecutively at a compound annual growth rate (CAGR) of 5% for 12 years. And during the 2020 pandemic, BCE maintained its dividend-growth rate at 5%, while Dividend Aristocrat **Enbridge** slowed its dividend-growth rate from over 9% to just 3%.

Inflation benefitted energy and real estate companies, as they increased their prices, but the telecom sector was unaffected. While October inflation surged 6.9%, the cost of cellular services fell 6.3% year over year. The interest rate hikes by the central bank increased the interest expense of companies with high leverage. But BCE's weighted average annual after-tax cost of debt was at a historical low of about 2.8% thanks to high exposure (85%) to fixed-rate debt.

While energy companies are spending significant capital, BCE is closing its capital-acceleration program. Such contrasting responses of BCE and energy companies make them buys for smart diversification.

BCE stock has dipped over 5% this month, as rival **Rogers Communications** nears its merger with **Shaw Communications** to make a bigger company and increase competition.

However, two network outages of Rogers in the last two years plus BCE's lead in the 5G infrastructure could keep the latter's cash flows growing for some time. The recent dip is the time to lock in a 6% dividend yield.

A $2,400 investment in BCE can fetch you $145 in incremental annual dividends for a long time.

The oversold utility stock

Apart from telecom, the mid-cap renewable electricity utility stock **Algonquin Power & Utilities** (TSX:AQN) saw a pullback, as the stock price fell over 38% after the third-quarter earnings release. Algonquin reduced its 2022 guidance due to rising interest expenses. The company took $1.2 billion in debt (the majority is floating) to fund its Kentucky Power acquisition. Higher interest expense could stress Algonquin's dividend-paying capacity and risk dividend cuts.

But with higher risk comes a high dividend yield of 10.19%. The stock is trading at a 52-week low of less than $9.5, creating an upside potential for capital growth. A $2,400 investment per month would earn you $244.6 in dividends and the potential of over 50% capital growth when the economy recovers. Even if the utility halves its dividend, it could likely give yields above 6%. While interest expenses pose a short-term challenge for Algonquin, things might smoothen out in a year or two.

Investing in real estate

The third step of portfolio investing is buying different asset classes. **True North Commercial REIT** (TSX:TNT.UN) stock has fallen almost 10% since October's end, inflating its distribution yield to 10.5%. The real estate investment trust (REIT) is sensitive to an interest rate hike, as the mortgage becomes expensive, reducing demand and fair market value of properties. At the same time, rising inflation helps the REIT increase its rental income.

Overall, the REIT had a 95% distribution-payout ratio, which might not be sustainable in a recession. There is a risk of distribution cut in the short term, but the REIT has the potential to return to its average trading price ($7) and lock in 24% long-term growth.

Investing tip

A well-diversified dividend portfolio can help you earn monthly passive income for years. BCE's 5% dividend growth could partially offset any dividend cuts by Algonquin or True North Commercial REIT. You can add such stocks to your portfolio to make diversification effective.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:BCE (BCE Inc.)
4. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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pujatayal