2 TSX Stocks That Cut You a Check Each Month

Description

Let’s go back 10 years, when things were affordable, and a monthly paycheck was enough. But the pandemic and rising inflation have significantly increased the cost of everything. The monthly paycheck doesn’t suffice, and there is a possibility that things could get tougher in the future. Those who invested in passive-income stocks in 2013 have a better financial life than before. It is because their 2013 investments are giving them a regular monthly passive income that takes care of increased expenses.

Two stocks that can give your future self a $1,000 check each month

The passive-income opportunity has knocked on your door, as the rising interest rate and a weak macro environment have created a 2012-like scenario. Some attractive dividend stocks are trading near their 52-week lows, which have inflated their dividend yield.

You can give your future self a $1,000 monthly check for a long time by investing in dividend stocks. Canadian stocks have an average dividend yield of 6%. To get a $1,000 dividend per month, you need to invest $200,000 in stocks with a 6% average dividend yield. If you invest $1,000/month, you could accumulate $200,000 in 17 years.

But you can reduce the time frame by investing a higher amount in the current bear market, where some attractive passive-income stocks offer a more than 8% dividend yield.

- **TransAlta Renewables** (TSX:RNW): 8.63%
- **True North Commercial REIT** (TSX:TNT.UN): 10.33%

If you invest an equal amount in the two stocks, they can give you a combined dividend yield of 9.48%. With a 9.5% yield, an investment of $126,500 can earn you $1,000 in monthly passive income. A 3.5% increase in the dividend yield reduced the total investment amount by $73,500. Make the most of the bear market and accelerate your investment to lock in a higher dividend yield.

TransAlta Renewables stock

The energy stock dropped 25% after it released a bleak outlook for 2023. The company builds/acquires and operates wind, solar, hydro, and natural gas facilities in Canada, the United States, and Australia. The rising interest rate has made it expensive to secure financing and challenging to pursue accretive acquisitions.

Moreover, several contracts of TransAlta Renewables will expire in the near and midterm, reducing its cash flows. Hence, TransAlta Renewables expects its 2023 free cash flow to fall 2% from its 2022 guidance. The company's prolonged outage at the Kent Hills facility is over, and it is now operational. But margins from all its operational facilities are expected to reduce, as inflation increases operation and maintenance costs.

In 2023, TransAlta will redirect 100% of its distributable cash flow toward dividend payments, as it focuses on sustaining its dividend rates and organic growth. It has been paying a regular monthly dividend since August 2013 and has increased it at a compound annual growth rate of 5.7%. But this growth has been irregular (four times in nine years). Management does not want to break its dividend record by announcing a dividend cut, unless it is necessary to preserve capital.

Bottom line: TransAlta is among the many midcap energy and utility companies facing rising interest expenses. Now is the time to lock in higher yields from these stocks, as energy and utility are resilient sectors. They will bounce back when interest rates fall or the government introduces new subsidies.

True North Commercial REIT

Another high-yield stock is True North Commercial REIT. Its stock price fell to a 52-week low in mid-December, even though the real estate investment trust (REIT) maintains a 95% occupancy across 47 properties. The REIT is facing the heat of the slowdown in real estate prices, as interest rate hikes make mortgages expensive. But if you take a long-term view, property prices will return to growth with an ease in interest rates.

Its current distribution-payout ratio of 95% is not sustainable in the long term. And even if the REIT cuts distributions, it would be marginal, as 80% of the REIT's rental income comes from government and high-credit-ranking companies.

Key takeaway

A $2,000/month investment in the above two stocks through the 2023 bear market can help you lock in 8% and 10% dividend yields for a long time. Even if the companies cut dividends in the short term, they would likely increase them when interest rates ease and the economy revives.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)
2. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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