



How 1 Absurdly Cheap Stock Can Generate \$100 in Monthly Passive Income

Description

Dividend investing is the suitable [strategy](#) in 2023, whether or not the central bank maintains its tightening cycle. After increasing its key interest rate again on January 26, 2023, Bank of Canada governor Tiff Macklem said it's now time to pause.

The policymakers will assess whether the eight rate hikes since March 2022 are sufficiently restrictive to bring inflation down. However, Macklem stressed that the pause is conditional, and additional hikes could be in the cards if inflation doesn't decline significantly. The forecast is that it will achieve the 2% target in 2024.

Meanwhile, investors need to weather the inflationary environment, and some will likely focus on dividend stocks to produce stable cash flow. An attractive prospect today is **Diversified Royalty Corporation** ([TSX:DIV](#)). Besides the absurdly cheap price of only \$3.23 (+9.08% year to date), the dividend yield is a mouth-watering 7.41%.

Business overview

Diversified Royalty derives royalty income from diverse businesses in different industries and has different geographic exposure. As of January 1, 2023, it has seven royalty partners: Mr. Lube, AIR MILES, Sutton, Mr. Mikes, Nurse Next Door, Oxford Learning Centres, and Stratus Building Solutions.

Stratus Building Solutions, in the commercial cleaning services industry, is the most recent royalty transaction (November 2022). The franchisor utilizes state-of-the-art cleaning equipment, sustainable processes, and non-toxic branded cleaning chemicals. Its clientele includes medical offices, schools, shopping centres, and warehouses, among others.

Management expects to increase cash flow per share through these purchased royalties or trademarks. Diversified received US\$6 million in initial royalty payment from Stratus, which would increase by 5% in every calendar year from 2023 to 2026. The full-year 2022 results have yet to come out, although the numbers after three quarters were mighty impressive.

In the nine months that ended September 30, 2022, the top-line (royalty income and management fees) increased 21.8% year over year to \$32.46 million. The net income in the same period rose 31.3% to \$20.06 million from a year ago. Notably, the \$11.6 million revenue in the third quarter (Q3) of 2022 was the strongest ever in a quarter since the adoption of the multi-royalty strategy nine years ago.

Dividend policy

Diversified Royalty's dividend policy pays monthly dividends to shareholders. Like most dividend-paying companies, the board of directors has the sole discretion to declare and pay dividends. The review of the dividend policy is ongoing, and the board may amend it depending on the current financial position, profitability, and cash flow.

Given the current stock price and yield, a \$16,311.50 investment (5,050 shares) will generate \$100.72 in monthly passive income. The sample computation gives you an idea of the potential earning from this high-yield dividend stock. But you don't have to sink in that much to avail yourself of the generous dividend offer.

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
Diversified Royalty	\$3.23	5,050	\$0.02	100.72	Monthly

Diversify and spread the risks

One criterium for choosing dividend stocks is the company's strong record of paying dividends. Diversified Royalty started paying dividends in November 2014 and hasn't missed paying monthly cash dividends ever since.

While the multi-royalty corporation has a superb dividend track record, it would be best to spread the risks. The TSX has a wide selection of well-established, [large-cap stocks](#) than will keep paying dividends, regardless of the economic environment.

CATEGORY

1. Dividend Stocks
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