Passive Income: 2 Cheap Stocks to Buy and Never Sell

Description

Discounted dividend stocks with sustainable payouts can offer you an amazing return on investment and are a highly desirable source of hands-off passive income. If they can hold their value and, by extension, the capital of their investors at a decent enough level, you can virtually hold them forever.

There are a decent number of such dividend stocks in the market at any given time that are varying degrees of "attractive." Two dividend stocks that are both cheap and rewarding that you should consider buying now and holding forever currently stand out from the rest.

A REIT

Almost all Canadian real estate investment trusts (REITs) slumped a while back, and even though most of them are already on their recovery journey, **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) is still heavily discounted. It's trading at a price 31% lower from its 2021 peak, and at a price-to-earnings ratio of 7.9, it's also modestly valued.

Thanks to the real estate bear market that stood longer with NorthWest than most other REITs, it's offering a juicy 8.2% yield right now. It managed the onslaught of the 2020 pandemic, though it would have been minor on this particular REIT due to the healthcare overlap. The current yield is sustained by a stable payout ratio of 69%, endorsing the sustainability of its dividends.

Another reason to consider holding this cheap REIT forever in your portfolio is the strength of the underlying business. Healthcare is almost an evergreen business, and the properties associated with the healthcare industries often experience long-term occupancies. This makes its revenues and, consequently, the dividends quite reliable.

A geographically diverse portfolio of properties is another strength. At this yield, you can start a passive income of about $250 per month with a capital of $37,000 invested in the REIT.

A mortgage company

Even though the mortgage market in Canada is dominated by big banks, and bank stocks would be your best source of exposure to this market, a smaller player like MCAN might be a better choice for passive income. It's not cheap per se, but the valuation is very fair, and the stock is modestly discounted — i.e., about 11% lower compared to its last peak.

The Toronto-based mortgage company has experienced modest growth in the past decade, although it's mostly growth bursts rather than consistent upward growth.

But it's enough to keep your capital from sinking under inflation. This is just one of the reasons why it's a desirable long-term dividend holding. The other reasons are associated with its dividends, starting with a mouthwatering yield of 9%.

If you need a passive income of about $255 a month, you will have to spend roughly $34,000 in the company. Its dividends are backed by a stable payout ratio of 90%, and the company has been raising its payouts at a decent enough pace.

Foolish takeaway

There are a lot of cheap stocks you can buy for passive income, but relatively few of them are worth holding long enough for them to "pay off" their capital in the form of dividends. Based on the current yields and assuming the individual payouts will go up, not down, both companies can pay off their capital in under 13 years via dividends alone.

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