Need $500 in Passive Income Each Month? These 2 TSX Stocks Are Your Top Bets

Description

The best way to build generational wealth is by creating multiple income streams. Investing in dividend stocks is a capital-efficient way to generate a passive-income stream compared to traditional real estate investments. Here, you can start by investing even a few hundred dollars in quality dividend stocks and increase your exposure over time.

Yes, investing in the equity markets carry significant risks. In addition to volatility in stock price movements, dividend payouts are not a guarantee. But this asset class has consistently outpaced inflation to deliver steady returns to shareholders over the long run.

So, you need to identify fundamentally strong companies with robust balance sheets and the ability to generate cash flows across business cycles. Here, I have identified two such TSX stocks that can help you earn $500 in monthly dividend income.

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
Keyera	$30.04	1,665	$0.16	$266	Monthly
Pembina Pipeline	$46.38	1,078	$0.218	$235	Monthly

Keyera

The first dividend stock on my list is **Keyera** (TSX:KEY), an energy company that pays you a monthly dividend of $0.16 per share, indicating a forward yield of 6.4%. Keyera operates in the energy infrastructure space, and the midstream company is somewhat immune to fluctuations in commodity prices.

In the first nine months of 2022, Keyera increased adjusted earnings by 80% year over year to $1.86 per share due to an uptick in energy prices. In this period, its distributable cash flow per share stood at

$2.49, which suggests the company's payout ratio is easily sustainable at 58%.

A low payout ratio allows Keyera to invest in capital expenditures and strengthen its balance sheet as well as increase dividends. It has already allocated close to $1 billion to the KAPS project, which should increase cash flows and dividends in the future. Keyera's dividends have increased by 6.5% annually in the last two decades.

Pembina Pipeline

Another energy infrastructure company, **Pembina Pipeline** (TSX:PPL) pays investors a monthly dividend of $0.218 per share, translating to a forward yield of 5.6%. In the third quarter of 2022, Pembina Pipeline reported sales of $2.8 billion — an increase of 29% compared to the year-ago period. Further, Pembina raised guidance for the fourth quarter and hiked the dividend by 3.6% year over year.

In the last four quarters, Pembina's net income stood at $2.7 billion, while its revenue totaled $11.5 billion, indicating a net margin of 23%, which is exceptional for a company part of a capital-intensive sector.

Similar to Keyera, even Pembina Pipeline has a low payout ratio of 53%, providing it with enough room to increase dividends, especially in an environment of elevated oil prices.

Priced at less than 10 times 2022 earnings, Pembina Pipeline is a profitable company that has already delivered outsized gains to long-term investors.

Due to its contracted cash flows, Pembina can generate consistent profits across business cycles. Additionally, these contracts are long term in nature and indexed to inflation, making it a top bet in 2023.

The Foolish takeaway

In order to earn $500 in monthly dividends, investors need to distribute $50,000 equally between the two stocks. But it does not make financial sense to allocate huge amounts of capital to just two companies. Instead, investors should identify similar companies with stable cash flows and attractive dividends to create a diversified portfolio of dividend stocks.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)
2. TSX:PPL (Pembina Pipeline Corporation)

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Author
araghunath