Passive-Income Stocks Have Been Soaring: Is it Too Late to Buy?

Description

Is it too late to buy passive-income stocks?

It's an important question to ask. Last year, passive-income stocks (i.e., dividend stocks) were all the rage, as tech stocks were crashing at the time. Energy stocks, which typically pay dividends, outperformed the market in 2022; other dividend sectors performed reasonably well, too. As a result of this having happened, dividend stocks are now more expensive than they were for much of last year. Tech stocks, however, are cheaper. So, is it too late to buy passive-income stocks now?

Some passive-income stocks are worse than they were a year ago

It's undeniably true that some passive-income stocks are less appealing than they were a year ago. Consider oil stocks. About a year ago, oil stocks were very cheap, while oil prices were rising. Today, their prices are up, while oil prices are going down.

Cenovus Energy (TSX:CVE) is a great example of this phenomenon. It's currently up 34% from where it was a year ago. Investors' returns have been greater than 34%, as CVE pays a dividend.

Yet in that same period in which CVE rose 34%, oil prices fell 16.7% from $95.5 to $79.5. Cenovus Energy's earnings are almost sure to decline in the first quarter because of oil prices falling. As I wrote last year, the company managed to shave off some interest expense by paying off billions in debt. Still, that probably won't overpower the effect of dramatically lower oil prices.

We'd expect CVE to produce lower earnings in the first quarter on a higher stock price. It could be that the stock is still cheap — actually, I think it is — but it's not as cheap as it was a year ago.

Opportunities still remain

Despite the fact that some dividend stocks are getting pricey, opportunities remain. In the banking sector, stock prices remain down over a 12-month period, even though net interest income is rising dramatically.

Take **Toronto-Dominion Bank** (TSX:TD) for example. In its most recent quarter, its revenue increased. Its earnings, going by usual accounting standards, increased 76%; its adjusted earnings increased 5%. Whether you trust the accounting rules or TD's accounting preferences more, the company's earnings increased.

Additionally, TD bagged two deals to buy out U.S. banks doing $1 billion a year in combined profit. Yet the stock price has fallen over the last 12 months. So, TD's actual profit and potential profit are rising while the stock price declines. It looks like a deal.

Foolish takeaway

Having looked at the energy and banking sectors, can we say now that passive-income stocks are still good buys? In my opinion, the answer to that question is yes. Dividend stocks are still reasonably well valued at the moment. Many of them trade below 10 times earnings. Some of them have 5% yields. Others are growing at a rapid pace. Over the last 12 months, value stocks, including many dividend stocks, have grown their earnings more than tech stocks did. Still, their shares are in the bucket. This looks like a good pool to be buying in.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CVE (Cenovus Energy Inc.)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/08/25
Date Created
2023/02/13
Author
andrewbutton