Dividend Investors: Why You Need to Buy Enbridge Inc. and TransCanada Corporation in 2015

Description

Business is ugly in the energy patch.

Since July, oil prices are off more than 50% — an astounding move for a major commodity.

Energy stocks have been crushed. Calgary property sales have fallen off a cliff. Dividend payments are being cut left and right.

However, one group of energy stocks have continued to provide growth AND income over the past few months even with plunging oil prices.

I'm talking about pipelines.

If you follow the news, you probably know that these things are a hassle to build. But once you have one up and running, there might be no better investment in the world (especially if you like earning lots of dividend income).

Pipelines are the ultimate toll road business. The owner simply charges a fee on every barrel of oil that flows through their network. And whereas energy prices can be volatile from day-to-day, the actual volume of crude being moved is remarkably consistent.

Sure, these projects require a big upfront investment, but they're not that expensive to maintain. Annual costs are usually only a small percentage of revenues. The rest of the profits can be paid out to owners.

Better yet, pipelines aren't impacted by recessions or wars. Buried deep underground, your investment is perfectly safe. Every day, they just sit there, delivering oil to customers and spitting out dividends to shareholders.

Best of all, there's little competition. Trucks and rail can't compete once a pipeline is in place. The only true competition to pipeline is another pipeline that runs right beside it.

But even if you wanted to build a rival line, you probably couldn't do it. The cost to lay a competing pipe usually runs in the billions of dollars. Local governments and landowners are also hesitant to grant the needed right-of-ways for new construction.

That's enough to keep any would-be start-ups out of the business. For shareholders, this all means that pipelines can earn thick profits year after year without the worry of competitors biting into margins. Their cash flows are as steady as bond coupons.

That's why, as you can see in the chart below, pipeline stocks have been remarkable investments.

pipelinestocks (1)

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Source: Yahoo! Finance

If you had invested $100 in both **Enbridge Inc** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) back in 2005, your investment would be worth $480 and $275 today, respectively. That compares to a meagre 56% return from the **S&P/TSX Composite Index** over the same period.

And you can expect those returns to keep on coming. There's a massive surplus of oil in Canada and nearly an unlimited demand for the stuff south of the border. That means shippers like Enbridge and TransCanada will be running at almost full capacity for decades to come.

Panic in the energy industry has hammered pipeline stocks. But unlike most oil businesses, these companies will continue to crank out reliable cash flow. That's why 2015 is a great time to add one of these stocks to your portfolio.

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1. Dividend Stocks

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3. TSX:ENB (Enbridge Inc.)
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