Dividend Investors: The Case to Buy Enbridge Inc.

Description

Who doesn’t love a big, fat dividend yield?

You know what I’m talking about. Those stocks that sport yields of 7%, 10%, even 15%. Holding dividend stocks like these are akin to owning a virtual firehose of cash flow.

The thing is, if you’re just ogling fat yields, you’re missing the bigger picture. When it comes to income investing, it’s far smarter to zero in on stocks that consistently increase their dividends over time. That’s true even if it means sacrificing current income.

Case in point: **Enbridge Inc** (TSX:ENB)(NYSE:ENB). With a yield hovering just over 3%, the payout on this stock won’t knock your socks off. That said, the pipeline company does have a long history of rewarding investors with growing distributions.

To see what I’m talking about, take a look at the chart below.

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Source: Enbridge Investor Relations

That chart alone makes the company a great dividend stock. Since 1995, Enbridge has hiked its payout every single year. During that time, the company’s annual distribution has grown from $0.25 per share all the way to $1.40 per share.

But it gets better. That’s because Enbridge investors have been rewarded twice. During that same period, shares have appreciated even faster than the dividend payout, up nearly 15-fold.

The thing is, at no point over this time did Enbridge sport a jaw-dropping yield. However, if you had bought and held the stock and reinvested all of your dividends, the yield on your original investment would be more than 95% today. Clearly, skipping over this stock because of its meagre payout would’ve been a mistake.

Of course, investors shouldn't expect those triple-digit returns to continue over the next 20 years, but there is still plenty of upside ahead. Thanks to new drilling technologies, billions of barrels of oil and gas are now being pulled out of shale beds across the continent. Companies that collect, store, and move all of this energy are poised to make a fortune.

Enbridge is positioned to do exactly that. This is why the board of directors recently approved a plan to hike the company's dividend about 15% each year from now till 2018. That's up from a previous growth rate around 10% to 12% per year.

Now, you can't take those dividend hikes to the bank just yet. Future payout increases will depend on earnings and cash flows. That said, management would not have raised investors' hopes unless they were confident they could deliver.

A low yield is not a good reason to skip over a stock. Instead, some of the greatest companies offer smaller current yields along with strong dividend growth, just like Enbridge. This combination of income and capital gains usually delivers better returns over the long haul.

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