Enbridge Inc. Hikes its Dividend Yet Again: Is This a Signal to Buy?

Description

It is easy to see why Canada's largest provider of transportation and midstream services to the oil patch, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), continues to garner the attention of investors. Its business model continues to prove its resilience, even in the most difficult of operating environments, while the company remains committed to rewarding investors. It increased its dividend by 33% late last year and I believe this, combined with a range of other strengths, makes Enbridge a must-have investment for any portfolio.

So what?

A key strength of Enbridge's business model is its wide, multifaceted economic moat that protects its competitive advantage and earnings growth. As Canada's largest provider of crude transportation services, it is responsible for shipping over half of all Canadian crude exported to the U.S. and forms an integral link between the patch and crucial U.S. refining markets.

Enbridge also continues to work hard at reinforcing its economic moat by bulking up its pipeline network and building a diversified portfolio of assets. It currently has 32 growth projects underway that are set to significantly expand the capacity of its crude transportation network. This in conjunction with ongoing investment in other businesses, including renewable energy assets and asset restructurings, will support its targeted average annual adjusted earnings growth of 10% to 12% between now and 2018.

Further, with the Bank of Canada cutting interest rates to counter the rout in oil prices, debt has become cheaper. This is a boon for Enbridge because the firm relies on debt as a means of financing its infrastructure projects, and the move reduces the costs of funding new pipeline development.

Such strong earnings growth is a key reason why Enbridge has paid a dividend every year since 1953 and hiked its dividend for the last 18 straight years, including during the global financial crisis when most companies were cutting dividends or eliminating them altogether. As a result of its earnings growth, Enbridge was able to boost its dividend by 33% in December 2014, commencing in March 2015. This gives Enbridge's dividend a spectacular average compound annual growth rate of 10%

since inception, which is almost triple the average annual inflation rate for the same period.

But the good news doesn’t stop there for investors.

Enbridge’s business operates essentially as a tollbooth that collects a fee on every barrel of crude and every cubic metre of natural gas it transports over its pipeline network. These tolls, and hence Enbridge’s earnings, can only continue to grow as the volumes of crude and natural gas increase.

Despite the current global supply glut, world demand for oil and natural gas will continue to grow over the long term, underscoring the critical importance of the services provided by Enbridge. Obviously, as that demand grows, crude prices will eventually rise and oil production will increase. In fact, despite the rout in crude prices that sees a number of oil producers winding down production, Canadian oil production between now and 2020 is expected to grow on average by 5% annually. This will surely lead to greater volumes of oil and natural gas being transported over Enbridge’s network, thereby boosting its earnings.

Now what?

I believe Enbridge will continue to reward investors through strong dividend growth, making it a must-have stock for any portfolio.

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