Dividend Investors: The Case to Buy Enbridge Inc.

Description

As I've said time and again, the best part about dividend investing is that it's predictable.

Case in point: **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

In an article published last October, I predicted the Calgary-based company — which owns pipelines, gas utilities, and other energy assets — would raise its dividend by early 2015.

I'm happy to report that Enbridge did not disappoint. On December 3, only a couple of months after my article appeared, the company boosted its quarterly payout by 33%.

Now I would love to say that I have remarkable forecasting powers, but honestly, any Joe Schmoe could've seen this coming. Enbridge has hiked its payout for 25 consecutive years. With its business still growing at a steady clip, there was no reason to stop now.

The only question was how big the increase would be. A 33% bump was certainly more than anyone expected. But it's only when you put consecutive increases together that you really appreciate the power of dividend growth.

Since I first recommended Enbridge here at Motley Fool Canada in late 2013, the company has increased its payout twice. The quarterly dividend is now 56% higher than it was just 16 months ago. If you had bought and held the stock through this period, the yield on your original investment is nearing 4.5%.

Continued growth

Can the company keep the distribution growth coming? Businesses cannot pass on dividend hikes out of thin air. Fortunately, Enbridge has a long growth runway ahead of it.

To accommodate North America's energy boom, the company is investing more than $44 billion in new infrastructure projects through 2018. That includes thousands of miles of new pipelines, storage plants, and processing facilities. Analysts project these efforts will grow earnings (and by rough extension dividends) at a 10% to 12% annual clip.

The big picture

Now some investors might scoff at the stock's current payout. Certainly Enbridge's 2.9% yield won't knock your socks off. But focusing on current income alone misses the big picture.

To me, there are two ways you can look at dividend stocks. Some companies sport relatively high yields but then only increase their payments modestly. Others firms pay lower yields but ramp up their payouts at a much higher rate.

If you need income today, Enbridge might not be the stock for you. But if your time horizon is over a decade and you're willing to be a little patient, this stock is a solid bet. Assuming the company can continue to grow its payout 10% per year over the next decade, investors who buy the stock today will be able to milk an 8% yield on their investment by 2025.

This stock will bob around as energy prices and interest rates all affect the company's profits. But if you don't own shares of Enbridge today, you'll probably hate yourself 10 years from now. Given this firm's track record for rewarding investors, shareholders can count on a growing stream of dividends for decades to come.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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1. NYSE:ENB (Enbridge Inc.)
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