Dividend Investors: Should You Buy Enbridge Inc.?

Description

When it comes to dividend yields, the best things sometimes come in small packages.

Consider **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

Throughout the past decade, the stock's yield has averaged just 3.2%. That's better than a sharp stick in the eye, but it's certainly not enough to get most income investors out of bed.

Yet Enbridge's dividend and share price have both grown steadily, producing an impressive total return of 420% over the past 10 years. That works out to 17.9% on an annualized basis, nicely topping the **S&P/TSX Composite Index**.

Of course, these are backward-looking numbers. However, there are reasons to believe that Enbridge will continue to generate solid returns. What the stock does in the short term is anybody's guess. But over the long haul, I expect investors will be rewarded nicely.

Here's why:

1. **It's a wonderful business**

Business isn't much different than Game of Thrones.

When you own a profitable company, it's like being the king of a castle. In a capitalistic system, everyone wants to take your crown. Wonderful companies must have a durable advantage, like a moat, that protects the business from competition.

Enbridge has a moat more than a mile wide. The company's main operations—oil and natural gas pipelines—are natural monopolies. It just doesn't make sense to have two competitors serving the same market.

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

Even if you wanted to compete against Enbridge, chances are you wouldn’t be able to. Even if you could come up with a billion bucks, it’s unlikely that you could secure the needed right-of-ways or buy out every landowner along the proposed route. And even if you did, you would only split the existing business—greatly diminishing returns.

And let’s not forget about the company’s gas distribution business. Enbridge has more than two million customers in its network. There aren’t exactly two sets of pipes routed into your house. So, if Enbridge is in your neighborhood, you’re paying them for delivery.

While this business requires a big upfront investment, it’s not that costly to maintain. Once installed, these pipes just sit there, delivering gas to customers. Maintenance costs are only a tiny fraction of revenues; the rest can be paid out to shareholders.

As a result, Enbridge is able to crank out oversized profits without the worry of competitors eating into margins. That’s the hallmark of a wonderful business.

2. **It’s a dividend powerhouse**

For shareholders, this has translated into a steady source of income.

Enbridge has paid dividends without interruption since 1953 and it has increased its payout for 25 consecutive years. Last year’s increase was an unusually large 33%, which the company attributed to a corporate restructuring and confidence in the future.

Admittedly, Enbridge’s 3.3% yield isn’t high enough to whet the taste buds of some investors. It’s only when you see how these payout hikes add up over time that you really appreciate the benefits of dividend growth.

Over the past 20 years, the company has raised its distribution at an 11% annual clip. If you had bought Enbridge shares in 1995 and reinvested all of your dividends, the yield on your original investment would be almost 90% today.

3. **It’s growing**

And I expect that dividend to keep growing.

North America is in the midst of an energy revolution. Thanks to new drilling techniques, billions of barrels of once unrecoverable oil and gas are now being pulled out of shale fields across the continent.

Companies that collect, store, and move all of these barrels are poised to make a fortune. Enbridge is positioned to do exactly that. The company already has dozens of projects slated—including thousands of miles of pipeline extensions, as well as dozens of new processing and storage facilities.

In total, Enbridge has over $36 billion in expansion initiatives on the books. That should allow the company to grow earnings—and dividends—at a double-digit clip over the next decade.

Bottom line, Enbridge is a wonderful business. I expect patient shareholders will almost certainly be rewarded with growing profits, dividend payments, and a stock price that—though unpredictable in the short term—should gradually rise over time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. Editor's Choice

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rbaillieul