



Buy Enbridge Inc. for High Quality Income and Growth

Description

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)) has been running a reliable business focused on the essential need of delivering energy for 65 years. It has a long history of paying dividends. It paid its first dividend in 1953, and it has continued paying dividends since. Even during the financial crisis, it continued to raise its dividends at a rate more than three times greater than inflation.

Earn a 3.2% growing yield from this pipeline leader

And investors are in luck — Enbridge has dropped from its 52-week high of \$65 to its current price around \$58, a dip of 10.8%. Thanks to the pullback, investors can now add this core holding to their portfolio at what I think is a fair price according to the price-to-cash flow ratio.

Since 1996, it has shown a pattern of increasing dividends every year. From 1996 to 2014, its annual payout went from \$0.25 per share to \$1.40 per share, which equates to an annual growth of 10.6%. That's over three times the rate of inflation. Its dividend is safe and growing, supported by growing earnings. Its last dividend raise of 33% in Q1 2015 was excellent.

Today's starting yield of 3.2% is at the middle of its five-year historical yield range. For comparison, the low end is between 2.4% to 2.75%, while the high end is at 3.7%.

What can investors expect in the future?

The company expects to grow earnings by 10-12% annually. With the payout ratio approaching 75%, and the company expecting to pay out 75-85% of its earnings, the dividends should continue to grow at least 10% annually until 2018. Analysts estimate a one to two-year price target of \$75 to \$84.

If you do end up adding Enbridge shares to your portfolio at \$58, from a capital appreciation standpoint, you're estimated to get a return of 29.3% to 44.8% in the one- to two-year period. Adding in the 3% yield, that's a total return of 31.3% to 47.8%.

From both an income and growth standpoint, I believe Enbridge is an excellent investment at least for the next few years. I would buy Enbridge at the current price, although it would be nice to get it closer to the 3.5% yield point around \$53 to \$54.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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